PLENARY PAPERS

V^th EUROPEAN CONGRESS OF AGRICULTURAL ECONOMISTS

RESOURCE ADJUSTMENT AND EUROPEAN AGRICULTURE

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Papers:

THE ENTERPRISAL SYSTEM OF AN ADJUSTING AGRICULTURE IN HUNGARY

by

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Antecedents of Research

At the end of the 1970s investigations on the exploration and prognostication of agroecological potential were launched by the Hungarian Academy of Sciences.* It is well-known that to the growth of plant production several factors which can be ranked with various groups of socio-economic, technological, financial and ecological factors are required. Of these the ecological ones, i.e. the soil and climatic conditions and the potential capabilities of plant specids can be influenced to the least extent. Consequently, further investigations may be directed to them. This is why this problem area has been pressed by the Hungarian Academy of Sciences. Two basic objectives of the survey were to identify

- what realistically obtainable level of crop production will be rendered possible by the country's agroecological features around the turn of this century,
- how the present habitat characteristics can be utilized better for the growth of production and reduction of expenditures.

The results of research have been summed up in a 3-volume study and a book that give an outline of the aims and tasks of the survey and discuss Hungary's agroecological features as well as the yield prognoses of crop production, including those of field, horticultural and forest crops. It has been revealed that under the conditions and with the knowledge of the period observed yields may be increased by 80 %. To the afore mentioned the prognosis of social needs and various models on the optimization of the sowing structures of field crop are attached. Finally, re-

*This was already reported by the EAAE Congress in Belgrade, too.

search reports treat the socio-economical possibilities and conditions of the utilization of agroecological potential. (1)

In the next phase the investigations focussed on a wider scope and novel utilization of the biomass produced. An Interdepartmental Committee set up by the Hungarian Academy of Sciences assessed the country's biomass production and utilization. Research findings describe the model used under the survey, the state of biomass production and utilization, the possibilities of the development of production and varios ways of utilization till the turn of this century. They provide an analysis of the change of food consumption, the improvement of the effectiveness of forage and the utilization of biomass in energetics, chemical industry etc., pointing out intersectorial relations and discussing the conditions without further progress cannot be made. The studies concentrate on the industrial, biotechnological and environmental aspects of biomass production and utilization, too. Finally, developmental alternatives are treated, based on model calculations.

Research on the System of an Adjusting Agriculture

The afore mentioned investigations had been hardly completed when research on the Hungarian system of an adjusting agriculture was launched in 1985. Research activities are being performed in four directions:

1. Within the framework of the programme, first of all, the relationship between natural environment and adoptability is studied. Within this special attention is paid, among others, to weather, warming up and/or the drought which has been present in Hungary in the past years. Investigations are concerned with the elaboration of the information system of Hungary's highly heterogeneous habitat features, yield analyses, risk analyses as well as the study and prognostication of the long-range effects of intensive crop production.

2. The research programme seeks to answer the question to what extent the adaptability of agriculture is influenced by the technical and technological state of production, its quantitative and qualitative aspects, the convertability and flexibility of resources at our disposal. Great attention is paid to man himself, his qualifications and instrumentation as well as the infrastructural background which is a more and more important precondition of adaptability.

3. The methodology applied, too, constitutes an integral part of research. Several relationships of agriculture have already been identified, and several models for revealing interactions, the simulation of the systems behaviour and the development of planning have been worked out and used successfully. These models are generally based on economic relationships and reflect a static state although ag-

riculture and food production are regulated by many stochastic parameters (meteorological factors, the spread of plant diseases, etc.) and conditions that determine the system externally (e.g. market relations, political decisions). Adaptability may be assured, primarily, by taking into account this system of conditions in decision-making.

Relying on the relationships identified and synthetized so far a homogeneous methodology in support of decision-making is aimed at that includes

- the necessary information system,
- the methodology of prognostication which assists planning,
- a family of models which generate the alternatives of decisions, and finally,
- the elaboration of methods supporting decision-making which take into consideration the system of changing goals and conditions.

4. The fourth trend of research incorporates social, agroeconomical and microecological (i.e. enterprise economy) problem areas. The research programmes on agroecology and biomass mentioned above were of interdisciplinary character and in each of them there was a great emphasis on agroeconomic and enterprisal relations. This is especially valid for the problem of adjustment. The exploitation of the agroecological potential, the utilization of biomass and the process of adjustment are realized, eventually, in agricultural enterprises. This is why scientific inquiry has been directed, repeatedly, to the enterprisal system.

Enterprisal adjustment manifests itself, on the one hand, in reactions to the events occurred and, on the other, in the growing chances and possibilities of attunement to the unforeseeable changes. The latter relies on strategies based on probable images of future. (3)

The system of agricultural enterprises is founded on a policy that reckons with the necessity of adjustment, and, in which, with the knowledge of the agroecological, technological and technical as well as economic and organizational relationships and interactions, the whole chain of actions consistently applied promotes a more flexible enterprisal adjustment. This policy supports the forms of undertaking which are more flexible adjusting than others; it seeks and disseminates the missing enterprisal formations and strengthens the conditions which have an impact on and determine the process of adjustment.

The probable trends, extents and combinations of changes can be followed or take a preventive character if the system contains large-, medium- and small-scale ventures with different production and activity structures; further on, if their market information, their capabilities for decision-

making and other conditions for operation are given and if components of flexibility and stability evolve rationally. Up till now in Hungary the activities performed under various agroecological conditions and on different scales have developed in a highly varied way: the enterprisal system of agriculture has been made up of all kind of cooperative forms, state farms, agricultural combines, small-scale production and ventures integrated by the afore mentioned organizations and associations. However, this system is to be modernized, developed and renewed under the pressure of economic constraints.

The Actuality of the Problem Area

The actuality of the problem area discussed is acentuated by several factors, i.e. domestic (internal) changes and circumstances as well as those of the external economy.

The organizational work which laid the foundations for the up-to-date development of Hungary's agriculture was completed in 1962. The reorganization which shaped history, people and smaller settlements was followed by an upswing of production and international recognition. During one and a half decade the output of agriculture and food industry doubled and exports increased by 8-fold. Beside the high-level of domestic supply nearly five hundred gypes of agricultural produce and food products were exported to more than 100 countries. In the assets of the country's foreign trade balance agricultural produce and the products of food industry play an essential role.

From the distance of three decades we can state, definitely, that the theses of the agrarian policy proclaimed by the Hungarian Socialist Workers' Party in 1957 (4), learning from the experiences of the former years, showed the right way to further development. In the reorganization of agriculture Hungary's special features were taken into consideration (5) and those who framed every day agrarian policy paid attention to practical solutions in interestedness, independence, personal plots, intensive development, complementary activities, associations and production systems etc. That is no wonder that the agrarian policy applied in finding the way in domestic economy as well as the cooperatives appeared as "patches of colour", pointing to the future and enriching theory. (6) The agricultural experiences and results also gave an impetus to the new economic mechanism launched in 1968.

Despite the various restricting and hin-ering circumstances, the enterprisal structure, functioning and management of agriculture were being modernized, primarily, owing to th great importance of cooperatives. We must admit that sometimes recognitions were somewhat late or the right practice was given the green light only with certain delay. However, the permanent change of the enterprisal structure

is imperative. Thus it is justific for us to revise the way covered, and to delineate the trends of probable changes. This will show, at the same time, the actuality of the problem area as well. Today's endeavours to find a way out and consolidation heighten the interest in and expectations from the enterprisal world.

In addition to the results of our large-scale farming system and the closely attached personal plots, auxiliary farms and the like there are great possibilities and much to be done in the field of per unit costs, productivity, the spread behind the average and flexible adjustment. The question is how a given organizational structure can be formed in systems conception in the future in order to increase the effectiveness and income-yielding capability of the whole food economy and its profitability for the national economy while not neglecting the fact that all this is always dependent on the socio-political and economic state and conditions of a given period.

Political and State Intervention, Market Effects and Enterprisal Structure

To establish social conditions which are necessary to the effective fundtioning of an economy is the task of policy. Within this there are the transformation of the institutional system of economic control in harmony with the laws of economic development... the establishment and upkeep of the system of socio-economic conditions of scientific and technological progres ... (8).

The decisive and stimulating role of policy in economy and/or in enterprisal structure is supported by several national and international facts.

In the rationalization of the organizational system the fruitful co-existence of political decisions, statements and the state control of economy is one of the key problems. They can make a good service to economic life only if they grasp the most important points, tasks and conditions of development far-sightedly and comprehensively.

Policy does not intervene, directly, in the formation and operation of the structure of organizational and institutional system but it creates its general social conditions and delineates the desirable trends of development in relation to both aspects - the state control and enterprisal structure - (i.e. the subsystems) of the organizational system.

Through the rights, legal supervision and special administrative functions of the prevailing organizational and institutional system and, following from the independent activity which always seeks to justify the importance of every

organization the state control or intervention is a decisive factor of change or just the immobility and functioning of the enterprisal structure.

In spite of the fact that the process of changes of the organizational system of state control having occurred over the past decades has affected the agrarian sphere favourable and, contributed to the results achieved, it has not taken - nor could it have taken - into consideration, more consequently, the harmony between economic and controlling organs and the establishemt of their social more beneficial and optimal interactions. Thus the organizational system of the state control of agriculture continues to differ from that of industry. Moreover, within the agriculture itself the state control of production cooperatives and that of state farms are not the same either.

The probable trends of further development in the state control of food economy which are based on the results of recently finished research* and would stimulate the enterprisal structure can be summarized as follows (9):

- The functions of authorities, services and councel should be separated; the latter should be concentrated in independent consulting firms;
- The double control of the organizations mentioned, i.e. vocational guidance and the rights of the employer should be placed in the Ministry of Agriculture and Food;
- The rights of sectorial control should be expanded and strengthened;
- The hierarchical structure of control should be slackened and the medium-level (county) control should be eliminated;
- The scope of action of county departments should be restricted to the civilian sphere;
- The number of interventions in enterprisal area should be reduced.

From the foregoing it is evident that political decisions mark out the boundaries of the existence of enterprisal organizations just like state control with its organization and means. Although the reform of economic control projected the elements of plan and market which would operate simultaneosly, market regulators have been unfolding only slowly.

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*The research project "The Organizational System of our Economy" conducted by Aladár Sipos within the framework of the National Long-Range Plan for Scientific Research was carried out under the aegis of the Project Committee on Agriculture in the Research Institute for Economics of the Hungarian Academy of Sciences.

The more accentuated realization of market regulation has been impeded by many factors, e.g. the consumers' and producers' prices kept at a low level and calculated by the authorities, the highly indirectness of the external trade relations of agricultural enterprises, the delay and unreliability of market information, and marketing and commercial work lagging behind the standard of production etc.

Thus the strengthening of market effects are desirable since they would affect, favourably, the formation of enterprisal structure, the development and dissemination of more adjusting forms and vica versa, they would achieve the elimination of forms with low productivity and not meeting the needs of our age.

The Enterprisal System (Structure) of Agriculture

Enterprises and ventures are the basic economic units of people's economy. To the enterprises of agrarian sphere belong all the developing, productive, processing, trading and servicing enterprises (organizations) which are engaged in the output of agricultural produce or food products and/or the establishment of the financial, technological and professional conditions of this output, the provisions of various services and manufacture of capital quipment. Various organizations can be found in Appendix 1.

The enterprisal structure of agriculture is varied and constantly changing. The following varieties can be found parallel to one another and simultaneously:

- enterprises and ventures in state, cooperative and private ownership;
- organizations working under highly-varied habitat conditions;
- large-, medium-sized and small enterprises;
- enterprises which are engaged in plant production, food processing, industrial servicing, commercial, moreover, research and development activities, sylviculture, conversion of timber etc. beside plant growing and animal husbandry.

All this has been favourable to agricultural production, the establishment of export commodity stocks and the productivity of agricultural activities.

Among the enterprises making agricultural produce (primary products) we can find

- the agricultural cooperatives as a differentiated cluster of production cooperatives, cooperatives with integrated small-scale production and fishing production cooperatives;

- state farms and combines;
- the wide range of small ventures: personal plots and household farming in different forms, enterpreneurs working in flat-rate, rental and contract forms, auxiliary individual farms as well as the weekend sites or gardens around the house providing mainly relaxation and amusement;
- various associations (over 1000)
- production systems (over 67)
- syndicates of agricultural industry (4).

The production cooperatives which were established by the union of individually farming peasants are mostly up-to-date large agricultural concenrs. The average territory of 1268 production cooperatives exceeded 4000 hectares in 1985. The joint commodity production of collective and personal plots reached a high level.

The bulk of 129 state farms - among them 14 combines - perform the activities of large enterprises.

The average figures of production cooperatives and state farms widely-known among foreign experts, too, and the differences in their production and activity structures can be seen in Appendices 2 and 3. The enterprisal profit per unit of land depending on the size of enterprise and activity structure is illustrated by state farms in Figure 1.

Specialized cooperatives are "patches of colour" of the enterprisal structure. Their members enter into partnership for joint purchases, sales and services (transportation, storage, utilization and maintenenca of machines, counceiling on the activities of the members' farms, supply of material etc.). The members run the farms individually and, gradually, develop a joint activity which provides a basis for larger-scale enterprise management. Their effectiveness and results are remarkable. They make an excellent framework to small and larger-scale ventures, intertwining individual and family interests with the advantages of cooperatives.

Fishing production cooperatives are also interesting formations of the agrarian structure, owing to their specialized activities, small number of people and special devices. A decisive proportion of their "production" is the natural water surface but more than one-third of their production output comes from ponds.

The labour of auxiliary, individual and other farms consists of small-scale producers, small-scale enterpreneurs, secondary occupation holders and families that produce partly or exclusively for self-consumption or they are becoming producers for the market to an ever-growing extent. They perform their activities, attached to or independently of production

cooperatives, state farms and ÁFÉSZ (Általános Fogyasztási és Értékesitési Szövetkezet = General Consumers' and Sales Cooperative). These small-scale enterpreneurs with their realistic goals, conditions and circumstances are important chains in the organizational system of food production.

The territorial proportion of personal plots from the whole is 5.9 % and that of auxiliary farm is 5.7 %. The share of private farms (20,000 farmers) in cultivated land is 1.3 %; their average size is 3.6 ha. The small-scale producers mentioned do not really correspond to the concept of family farms since they take up neither the workforce of the family nor are they the basis of their living. Their role is to complement incomes; thus they are restricted to the utilization of the so called framgentary work time of housewives, the elderly and children as well as that of old buildings and the land around the house.

One and a half million of families carry on agricultural small-scale production. And this means that together with family members 4.5 million people are involved in it. Their distribution in 1986 was as follows (%):

- agricultural active wage-earners	17.5
- employed in industry and other workplaces	25.2
- pensioners	14.2
- helping members of family	43.0

In some kind of integration the small-scale producers are linked with production cooperatives, specialized cooperatives or state farms, consumers' cooperatives but they may pursue their activities entirely independently as well. The advantage of being attached to large agricultural concerns is that in addition to councel they can get credit - crop credig and service credit - from these organizations and provisions are made not only for propagating material but for sales, too. These concerns settle accounts with collaborating members at the end of the year, discounting the costs of propagating material and various services (transportation, plant protection etc.).

Within the interenterprisal organizations economic associations have had a long past; among them the plain economic cooperations, professional production systems and agrarian industrial syndicates are worth mentioning. Essentially, associations are organized for the pooling and utilization of existing financial and other resources and attaining various economic objectives. Of the interenterprisal organizations which function in different legal forms production systems have come to the limelight of international interest. These are developmental centres in which all the elements of the production and organizational process are included in a system and bound to optimal time; councel is given, plant species and technical devices are provided for.

It is expedient to emphasize that the structure of agricultural enterprise also changed constantly in the past, and it would be a mistake to consider it as static and unchanging in the future.

The Developmental Trends of the Enterprisal System of Agriculture

In the forthcoming years the enterprisal system of agriculture will develop in terms of competitiveness and adjustment. Before giving an outline of developmental trends two facts should be mentioned:

- on the one hand, the social transformation of agriculture, the stock of qualified people, the standard of production etc. are in favour of further development;
- on the other, the essence of progress may be concisely characterized by the cooperation of large-, medium-sized and small-scale ventures.

When delineating the image of future, based on the lessons of industrial and agricultural development the following developmental courses of today's production cooperatives, state farms and other organizations non-existent for the time being but to be organized in the forthcoming years can be identified:

1. There will be managing and controlling large enterprises, i.e. production cooperatives and state farms that have an impact on the general development of agriculture, moreover, on industry, services and trade as well. Their activities are diversified, ranging from R+D to leasing and factoring. Their decentralized, independently functioning organizational units pursue their activities in the forms of medium-sized enterprises and sometimes small-scale ventures. This formation will be unfolding as a special alloy of today's Hungarian agricultural combines, the existing production systems and commercial firms. Its germs can already be found in Hungary.

2. Large enterprises with a smaller range of action than the former ones which work effectively and flexibly and produce high quality will rely on various associations, organizations of medium-sized and small enterprises etc., exploiting the advantages of cooperation.

3. Enterprises with mass production, which are of large scale by European standards, will make a progress through winding up their uneconomic activities and concentrating their results. Instead of doing away with uneconomic activities sometimes prolonged leasing or home industry may be the solution.

4. The farms wound up will be production cooperatives which are situated on lands with unfavourable features. The viable production units of these farms may operate within the framework of other cooperatives or state farms; or they may be replaced by specialized cooperatives, small cooperatives and/or specialized groups. Prolonged leasing may be a solution, too: land, buildings, equipment, devices are leased out to enterpreneurs or groups of enterpreneurs.

5. Independent medium-sized enterprises will be organized, primarily, for research and development, various services, lending, commercial and other - today mainly absent - activities.

6. The scope of independent small ventures will be extended. They may be family, full-time undertakings or secondary occupations. This type differs from toerh small ventures in that respect that in each of the afore mentioned ones there can be small producers in integration to a given organization while to this group only independent private ventures belong.

The six developmental trends outlined here will be interwoven by associations, cooperations and production systems part of which may prove to be superfluous or be modified.

Organizational changes are required in the cooperation between agricultural enterprises and the highly concentrated public food industry, too, in which the form of share company seems to be the solution.

Naturally, the development of the organizational systems assumes a supporting policy, the simplification of the structure of state control, the joint strengthening of plan and market mechanisms, the reduction of the highly-centralized state collection of accummulation of enterprises, the increase of the interestedness in proprietary assets - as to point out only the most important requirements and needs.

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The clarification of many partial problems, the verification of hypotheses, the preparation of documentary materials and calculations as well as carrying out of various experiments are the tasks of further research.

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1. enclosed

ORGANIZATIONS IN THE FIELD OF AGRICULTURE

1985

1. Enterpries of agriculture, forestry and timber industry

Name	Number
Agricultural production cooperatives	1 268
Agricultural joint venture of cooperatives	45
Agricultural trade societys	60
Fishing cooperatives	15
Agricultural cooperatives total	1 388
Small scale farms	640 000
Miscellaneous farms /private, hobby.../	780 000
Small scale farms total	1 420 000
State farms	88
State experimental farms	15
Complex farms	14
State farms and complex farms total	117
Miscellaneous stately owned enterprises /animal, breader, fishing, reeds enterprises, subsidiary .../	14
Agroindustrial syndicates	4
Timber processing farms	24
Enterprises of timber producing	7
Forest and timber enterprises total	31

2. Production systems

Name	Number
Systems of plant cultivations	23
Systems of fruit growing viticulture	14
Miscellaneous plantations systems	5
Plant production systems total	42

Production systems /continuiation/

Name	Number
Systems of poultry production	8
System of sheep production	1
Systems of rabbit production	2
System of fish production	1
System of wild animals production	1
Systems fo pig production	6
Systems of cattle and milk production	3
Miscellaneous meat production systems	2
Animal husbandry production systems total	24
Forest industry production system	1
Production systems total	67

3. Economic partnerships of legal and non legal person in the field of agricultural sector

Name	Number of economic partnerships	
	of legal	of non legal person
Agricultural production	11	158
Food processing	18	128
Agricultural marketing	5	34
Agricultural production, processing, marketing	9	56
Agricultural production, processing	1	23
Agricultural production, marketing	9	76
Agricultural processing, marketing	2	20
Services	28	254
Construction activity	42	36
Industrial production	14	96
Miscellaneous	14	147
Total	153	1 028

4. Small scale undertakings in agricultural enterprises /1984/

Name	Number
Small scale undertakings total in agricultural enterprises	1 579
From this: intrapreneurial groups	671
industrial and service cooperative specialized groups	908
Parent compenys total	525
From this: parent companys of intrapreneurial groups	235
industrial and service cooperative specialized groups	290

5. Within the frame of Consumers' and Marketing Cooperatives specialized agricultural groups /1984/

Name	Number
Specialized groups in pig production	230
Specialized groups in honay bee	462
Specialized groups in rabbit production	769
Specialized groups in poultry and eggs production	81
Specialized groups in goose production	26
Specialized groups in dove production	60
Specialized groups in animal with fur production	74
Specialized groups in viticulture, fruit-growing	169
Specilaized groups in vegetables production	309
Specialized groups in horticulture	178
Specialized groups total	2 358

6. Food processing enterprises

Name	Number
Trust of meat processing enterprise	1
Meat processing enterprises	23
. from this: joint ventures	3
Poultry and eggs processing enterprises	14
from this: joint ventures	5
Trust of milk processing enterprise	1
Milk processing enterprises	22
from this: joint ventures	7
Production of canned foods	19
from this: joint ventures	4
Grain-trust	1
Flour processing enterprises	21
from this: joint venture	1
Bread processing enterprises	38
Sugar processing enterprises	11
from this: joint venture	1
Sweet processing enterprises	4
Oil processing enterprise	1
Distilling industry	6
from this: joint venture	
Wine processing enterprises	9
from this: joint ventures	2
Beer processing enterprises	6
from this: joint venture	1
Mineral, soda and refreshing /cooling, medicine/ processing enterprises	5
Tobacco processing enterprises	6

1..figure

Relationships between gross income per hectare size of state farms and sideline activity

	1,5	2,2	4,2	6,8	10,8	6,1
B_5	–	–	–	–	15,5	15 5
B_4	14,0	1,6	6,1	13,5	4,2	5,8
B_3	0,2	6,0	3,2	3,8	–	3,6
B_2	1,6	2,0	3,9	4,0	4,4	3,3
B_1	1,1	1,6	4,2	6,3	5,2	3,4
	A_1	A_2	A_3	A_4	A_5	

Index number
Size of state farms
/ value are based on net income/

A_1= -200 millió Ft under
A_2= 201-400 millió Ft between
A_3= 401-600 millió Ft between
A_4= 601-1000 millió Ft between
A_5=1000- millió Ft over

Plant - cultivations and animal husbandry share in outputs in the state farms

B_1= 90 % >
B_2= 75-90 % between
B_3= 60-75 % between
B_4= < 60 %
B_5= complex farms