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# BULLETIN 24

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RESEARCH INSTITUTE FOR AGRICULTURAL ECONOMICS

Bulletin 24

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PLAN, MARKET AND INTEREST  
IN  
FOOD ECONOMY !

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Budapest,  
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Budapest,  
1969

RESEARCH INSTITUTE FOR AGRICULTURAL ECONOMICS

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Ferenc Erdei

B

INTEREST RELATIONS IN THE FOOD ECONOMY OF HUNGARY

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"Fundamental feature in the reform of the Hungarian economic system is the organic linking of planned central direction of national economy with market relations, the active role of market, basing on socialist property of production means." This is the basic principle of the new economic system as laid down in the decree at the Session of the Hungarian Socialist Worker's Party Central Committee, 25-27<sup>th</sup> May, 1966.

This principle represents the acknowledgement of regulating role of value-law, on the basis of commodity and monetary relations, and means that purposefulness in socialist economy is decisively realized through controll system based on the independency of undertakings.

Accordingly, in the new economic system concrete economic content is given to the threefold sphere of interest: of national economic-, enterprisal- and individual workers interest. The assertion of this threefold interest system is determined by the fact that the decisive majority of production means is state propriety; however co-operative ownership plays also important role in it, as well as the auxiliary, homeplot and private economic activities.

This means that the new economic system is realized in a multisectoral national economy. The historically developed social-economic character and the different technical-economic nature of the individual production branches, influence also the manifestation of the threefold interest sphere.

Neglecting the modifying effects of these factors, interest relations in the new economic system - simplified to an abstract model - can generally be characterized by the following.

National economic interest - as for its economic content - includes: the supplying of social requirements /domestic supply and export/, the increase of centralizable incomes, increase of firm incomes, balance of employment and a constant raise in life standard. All this together mean the attainment and continuous maintenance of a state of dynamic balance. Economic political means of realizing this national economic interest are: the national economic plan as a setting of aims and program of activities realizing them, the regulation of prices and wages, the different channels of curtailment and the various patterns of dotations, representing together such a system of regulators - which, effects generally through market mechanism, and according to national economic interests, promotes or restricts and - in certain cases - directly prescribes or even forbids.

Firm interest on the other hand effects in following trends: aims to raise sale prices and reduce purchase prices, to increase the volume of production and decrease production costs: simultaneous develops workers' incomes and enterprise accumulation, and consolidates the market position etc. Permanent increase in the net income and profit of enterprises represent the main tendency of firm interest.

Individual interest of workers is concerned in



raising the guaranteed level of wages and supplementary allowances: in creating possibility for advancing and income increasing by greater volume and higher level of work: improving labour conditions and reducing worktime. This manifests demand for safe existency and constantly raising life standard, realized through the given enterprise mechanism; consequently a direct and indirect interest rate in the results of the enterprise is the economic content of the individual interest of workers'

Above interest relation patterns mean for economic policy that it can achieve its determined objects only through this system of interests. The serious or constant violation of any of the interest fields may disturb the balance and inhibit development. On the other hand the activated firm interest joined with individual interest may open significant economic resources, and this is a decisively important new element in the new economic system.

The successful first year of the new economic mechanism proves the reasonability of its introduction and reflects the stimulating effect of the new interest relations. And this is especially important in the field of food economy, partly because interest relations have here many peculiarities and partly because the most conspicuous changes have taken place in this range. Realization of the reform began here earlier and made a relatively greater progress.

That is why a detailed study on the trend of interest relations and their effects in food economy is timely. It is also of general importance from the aspect of national economic development and economic policy and is especially necessary, to the development of this branch of national economy.

## I.

Peculiar characteristics of interest relations  
in food economy

As for its basic interest relations food economy as a sector of national economy is not isolated from other national economic sectors; it exists within the same social-economic environments as the others. Still it has special characteristics, which highly differ from that of industry, building-industry, communication and commerce. The derivation can be traced back to two sources:

- the distinct nature of food economy resulting in a peculiar social channel of products from production to consumption: more complicated and critical character of vertical relations;

- peculiarities of production and property relations respectively i.e. significant share of every social sector of the Hungarian socialist system.

1. According to the vertical chain of commodity economy, the system of interest relations developed in such a way, that every vertical stage of the whole process is represented in food economy. These are organized partly in independent undertakings /producer, processor, commercial undertakings/ and partly - within the framework of the same undertaking - linked together, as processing and marketing activity of agricultural producers, or marketing activity of processors.

Even the individual stages of production are however highly varying in food economy.

- agricultural production produces as final products partly directly consumptable, marketable raw products, table fruit, vegetable, egg, milk, partly raw material for

food processing; /this represents the main part of total agricultural production/;

- processing industry produces food products by simple or complicated industrial processes;

- trade conveys partly raw material to food industry, partly raw and processed foodstuff from agricultural or industrial producers to consumers;

- communicating-transporting activity has its role at every stage: raw material is conveyed from producer to processor, final products from processor to consumer, fresh agricultural products from producer to consumer.

These phases of the economic process manifest at the same time branches of national economy; accordingly, both national economic and firm interests have developed separately and in a different way in each branch. And in the previous economic system principle of "clear profile" was strictly enforced in a sense, that the interests of producing, processing and commercial firms were exactly separated from each other, which was still sharper underlined by the different property relations. The new economic system on the other hand, eliminates this isolation gradually, thus interest relations of the vertical chain should be kept in view independently of where the enterprise belongs to.

a/ As for national economic interest, considerable differences continue to exist concerning both possibilities of planning, and curtailments and supports as well as the conditions of the whole economic control system.

The stage of agricultural production is characterised by the followings: land tax and withdrawal of differential rent; main part of producer's prices, - as basic material prices - is fixed according to the interests of consumption, life standard and central accumulation. Prices of production means of industrial origin are also mainly fixed, therefore the price scissor between agriculture and industry exists as constant economic political problem; consequently the tech-

nical development of agriculture in the given price system can only be carried out with state support.

Food processing industry requires possible lowest raw material prices, probable at a price level changeable by the food industry; in order to adjust food industry product prices according to the actual production costs. It demands further dotations. National economic interests - at the same time are linked to the withdrawal of food industry profits.

Similar national economic interest is effective in food trade: open price gap between producer- and consumer prices and price supporting if necessary; a producer's price level changeable by the trade, charges of central withdrawal shifted to producers and consumers respectively; extra export dotations; at the same time backward technical conditions of commercial activity /storage, packaging, handling/, and uncertain sources of development.

b/ The trend of firm interest differs according to the activity field of undertaking, be it agricultural producing-, industrial processing- or commercial one.

Interest relations of agricultural producing units /either state farms or co-operatives/ are more closely limited: they run the greater part of risk; their marketing and taxation conditions are more unfavourable than those of processing and commercial enterprises: that is why they are interested in developing their own processing activity and direct marketing; they need state support in expanding their production and developing their technical conditions, since their own accumulation means are low, while the market of the relatively expensive production means is narrow; finally, their enterprisal policy is highly limited also by social requirements /employment, social burdens/.

Food processors and commercial firms can generally develop their policies by extended opportunities and more safely, and have effective means to enforce their interests by economic political state organs and at the market. This

situation has both objective-economic and subjective-social determinants.

c/ Individual worker's interest is differentiated according to production relations rather than to the phases of production, processing and trade. From this view workers of state farms and of food industry enterprises have more similar interests in any work field than the employees in state owned enterprise and co-operative members of the same workfield.

2. The system of interest is especially peculiarly differentiated according to the property relations in food economy. In this respect food economy, as a national economic branch essentially differs from the others.

a/ First of all, production for own consumption coupled mostly with small scale commodity production represents a considerable proportion.

Self-sufficing production is of double importance. On one hand, in Hungary it still has a relatively large importance both in agricultural production /vegetable and fruit growing, poultry-, pig- and cattle breeding, etc./, and in food processing /wine making, pig slaughtering, home-canning, etc./. Nearly one third of the total consumption of population is covered from this source. This proportion is but constantly decreasing, thus, we have to be prepared to replace it by rapid advance in large scale agricultural commodity production and processing industrial development.

Share of household plots, auxiliary farm enter-  
prises and private farms in total food production  
and commodity production  
/1959 unchanged prices/

	Share in gross production value		Share in gross commodity trade	
	1963	1967	1963	1967
<b>C r o p p r o d u c t i o n</b>				
Bread grain	1,6	1,2	7,5	3,8
Fodder grain	36,2	34,9	23,7	25,7
Potato	38,6	33,1	17,2	18,9
Vegetables	31,1	26,8	14,1	10,8
Fruits	58,0	49,5	41,5	32,6
Vine	59,8	59,0	43,4	36,1
<b>Total crop production</b>	<b>26,6</b>	<b>24,6</b>	<b>19,3</b>	<b>15,9</b>
<b>L i v e s t o c k</b>				
Beef-cattle	30,0	23,2	26,6	21,9
Slaughter pig	51,5	50,8	13,5	14,2
Slaughter sheep	9,9	19,8	1,6	8,0
Slaughter poultry	68,4	60,6	25,8	23,0
Milk /cow/	52,0	44,6	36,6	28,0
Milk /ewe/	13,3	13,8	6,8	8,6
Egg	84,8	77,5	73,6	62,1
Wool	15,3	19,0	15,1	18,6
Feather	92,4	84,8	92,2	80,9
<b>Total livestock production</b>	<b>53,6</b>	<b>49,9</b>	<b>27,5</b>	<b>28,1</b>
<b>Altogether</b>	<b>36,2</b>	<b>33,9</b>	<b>23,4</b>	<b>21,8</b>

Auxiliary-, household- and individual small scale commodity production together represent more than one third of total agricultural production, but its share rate is slightly decreasing.

This production sector should not only be maintained because of national economic view but moderation of its natural decrease is a specially important social interest.

This sector requires relatively little economic support, still, political support could have decisive influence on its extension. Possibilities of income withdrawal are restricted, though not negligible.

Producer's interest in this social sector appears in two directions. On one hand, joint interest of the producer and of owner appears, resulting in the high grade influence of family-social interests on economic decisions and consideration though not paralyzing it. On the other hand firm interests of socialist large farms conflicts in certain fields with individual-, family-, small scale, commodity producer's interests being therefore the co-ordination a special political and economic political task.

b/ State sector takes part to a varying degree in the single phases of the production process: in agricultural production its share is relatively low, in food processing dominant, and in the trade also of decisive proportion.

State enterprises of all three phases have favourable position /monopolies, price regulations, dotations, etc./ regarding their firm interests compared to both co-operative and small-scale producer partners, due to national economic and budget interests. Interest relations and the effect of social-political conditions of the new economic system makes a realization of equal rights highly relative.

Individual worker's interest is realized through the employment relation and in this respect there is no essential difference as compared with other industrial and commercial state enterprises.

c/ Co-operatives are dominant structures of agricultural production, although the total production of collective co-operative farms does not represent the absolute majority of total agricultural production /in certain branches however does/. Homeplot production of co-operative members forms an organic unit with the collective farm concerning production conditions, and in growing rate in market-

ing activity fields.

National economic interest is realized in the co-operative sector in the following directions: possible increase of income withdrawal /land- and income taxes/; under given commodity- and value conditions necessary state support in certain branches and in low income farms; tendency to decrease producer's prices and production costs; safe employment and at the same time increased labour productivity; social burdens divided between state- and co-operative funds.

Firm interest - again - acts in the following directions: efforts to increase net income /production extended by own resources/; similarly interest of employing and income raising of cooperative members is also existing, being thisway also directly interested in the higher total income of the common farm; further interest is connected with the extension of subsidiary industrial activities, organizing direct marketing, balance of agricultural and industrial prices and on hand of it constant possibilities for purchase and sell; social burdens undertaken by the state, respectively extending firm level state support - in given price system - to certain branches or even to the entity of cooperative farming; preferring collective farms to home-plots.

Individual interest of workers is manifested in the co-operatives by the followings: demand on a guaranteed basic income /wages/ and socially valid level of social and cultural allowances; wider limits of complementary income shares than in the state firms; constant employment and fixed incomes of younger members; in case of older members maintaining of farm worktypes, executable as family share-work and more flexible frames of sharing income on this basis; and last but not least: share in kind in certain products of the collective farm /mainly bread grains and fodders/.



d/ Consumption and marketing cooperatives differ from the above types in their interest relations.

The view of national economy interest is reflected in this sector organisation type in the following: the risky commercial activity be kept within the frame work of co-operative sector; direct connection of producers and consumers interests by co-operatives; organisation of certain wholesale activities in co-operatives.

Main trends of firm interest in these commercial co-operatives are the raising of profits, compromise with producers' interest, supply of consumer and market demands.

Individual, workers interest in these co-operative commercial organisations is similar to that of the other state firms.

## II.

Actual trend of interest relations in certain important branches of food economy

Branches of food economy differ from each other just like industrial branches including mining and building industry. Differences equally originate from the technical-economical diversity of branches and of the enterprisal-organizational distribution in the vertical chain of the economic process. All food economic branches represent the extremely varying combinations of these two main factors, consequently the interest relations too show very different pattern. Even a brief characterization of all branches is not possible within the frames of a lecture or conference, therefore main typical ones should be selected, to represent the interest relations. We have chosen accordingly six branches which represent the simplest and the most complicated vertical channels as well as minimally and optimally consolidated production branches: bread, sugar, wine, cattle pig and poultry production.

1. Bread belongs to the most consolidated branches with the simplest structure; we have arrived, however, to this stage after highly critical development phases, and in the whole verticality of the branch there are critical phases even to-day.

Vertical chain of the production process of the branch is organized at present as follows:

- bread grains are produced almost exclusively in large-scale farms: mostly in the 3000 co-operative farms and a smaller but considerable proportion is produced by the 200 state farms; production of this raw material has attained a rapidly raising technical level and represents even an increasing tendency of yields and profitability; consequent-

ly on a yearly decreasing area yearly increasing yields are attained depending in a diminishing rate on weather conditions;

- purchase and milling of bread grains is carried out by 280 mills within the centrally organized network of the Grain Trust, mostly with the technical equipment of the old, originally well developed milling industry, the majority of which requires renovation;

- baking industry is represented at present by round loco state bakeries - instead of the former private 3600 ones -, out of which 80 are new and 200 renewed units; beside these 20 co-operative- and 600 private bakeries are operating recently, producing however hardly more than 1 percent of the total production;

- retail marketing of bread and baker's ware is carried out by the shop network of the state and co-operative small trade amidst serious hauling difficulties /distances of 40-50 km, lack of special transporting means, etc./ due to an overconcentration in baking industry.

Interest relations of the above vertical channel are characterized as follows:

- in 1968 producer's price of wheat was averagly 300 Ft/q beside the 100/300 Ft/q production cost level depending on production location and on yield; the interest of the producer /farm/ is highly positive by wheat production, which is explained in the increasing mechanization level and relative high level fertilizer utilization. Main factors of this development are: producer's price level, raised many times as high as it was at the time of deliveries to the state, and state support included in the prices of production means /fertilizers, combines, etc./;

- purchase, storage and milling put to account a combined standard cost of 70 Ft/q, which covers rather closely the actual costs, resulting thus in an own accumu-

lation insufficient for the technical development of storehouses and milling industry;

- considerable price support is given to the baking industry: 29-46% for the main bread types, which means negative firm interest; by the given consumer's prices its accumulation could only be raised either by decreased prices of processed flour or by increased price support of marketed products.

Important economic political and moreover political interests are however tied up with consumers' prices, thus, within reasonable time there is no possibility of their being raised. But similar national economic interests are tied up with the maintenance of producers' price level, consequently technical development of bread-grain processing industry can be brought about only from an "outer" source, i.e. from dotations.

Thus, in the vertical chain of the bread production baking industry is the critical point of the interest system. Interest conditions of bread grain production promote the technical economic development realizing decisive progress both in co-operative and the state farms. Interests of the concentrated state milling industry are closely limited, but not critically stressed, while those of the baking industry are decidedly stressed. Therefore, development of baking industry is economic political problem, that requires solution in the first place, within this branch.

This problem was put on the agenda at the "National Conference of Baking Industry" /1969. Budapest/, and Vilmos Sághy sketched the way of solution in the followings:

"The most important and most urgent task is to supply the lacking capacity, and national economy has realized significant inputs to the possible extension of productive capacity. Thus promotes however, only partly the solution. It is clear today, that the other part of the question regards the extension of baking industrial activity to other

economic sectors, which partly has to shorten the time, necessary to the supplementing of capacity, partly reduces the rate of state support and above all is appropriate help in eliminating i.e. loosening the monopoly of state owned bakeries and this way gave raise to competition. Government considers the existence of multisectoral production pattern inevitable. It has been decided, therefore, that the Minister of Finance in agreement with other ministers concerned will provide favourable financial conditions and other preferences in order to extend the capacity of baking industry with new units in the co-operative sector and - if necessary - in the private sector too... Producers' competition is a precondition of releasing the strict rules of product turnover."

2. Sugar is one of the relative similarly consolidated branches where the given interest system creates the basic conditions of development.

Domestic sugar consumption - inspite of being charged with a turnover tax included in the consumers' price of sugar - has doubled in the past twenty years. The 1967 per capita consumption was 32 kg compared to the 16 kg of 1949, and in the last year was even more. Sugar industry produced more than 400 000 ton sugar a year for home trade, industry and foreign trade; further increase can be but very slight. The 3,3 - 3,4 million ton sugar beet required for this supply is grown on an 180 000 - 190 000 cad.yoke area.

The two main stages of vertical channel: proportion of sugar beet production and sugar processing is balanced at present. Accordingly, improvement of rentability and appropriately realized withdrawal of dotations - besides maintaining the state of equilibrium - has to be solved in this branch in the near future. Economic incentives should be developed in such a way as to co-ordinate the national economic interest with the interests of agriculture and sugar industry.

A fixed price system is existing in the branch. Production, purchase and accounting of sugar beet is carried out in a contract system. Sugar beet production is interested in increasing the amount of yield as qualitative receipt is not yet introduced. Beet-topper as a fodder, as well as beetslips and molasses /offered by industry/, appear as by-products for the producers. Sugar industry demands the highest possible sugar content, is interested in reduced transport costs and an optimal season duration which can only be attained by investments. From national economic view maximum sugar yield per cad.yoke with minimum possible input is the most important aspect.

In this interest system pattern preconditions of an optimum balance at the phase of sugar beet growing are the followings:

- by improved seed material high yielding sugar beet with acceptable sugar content and disease resistance should be grown;

- qualitative receipt of sugar beet should be gradually introduced, the mode of delivery and receipt satisfactorily regulated;

- sugar beet production should be co-ordinated with reasonable dimension of livestock production in order to increase the producer's interest;

- rentability of production should be increased by applying chemicals.

The principal task of production development is the mechanization of harvesting owing to the labour force problems occurring in this field. Mechanization is but expensive: modern harvesting machines are rentably used only over 400-500 cad.yoke area thus only large farms can mechanize harvesting processes or this work phase should be undertaken by factories.

Transportation is the other critical factor in sugar

beet production; production regions should therefore be located round the sugar factories.

From the point of view of sugar industry higher sugar content is often more important than the transport costs: at present 1% sugar content surplus equalizes the transport cost of 100 km interest relations of industry appear in such pattern.

As higher sugar contents is for national economy also preferable, therefore adequate calculations should determine the national economic optimum and attain it by economic regulators.

Equipment of sugar industry is at present rather out-of-date, measures should be made therefore to establish optimal operating conditions. The interest conditions for this are more or less given.

3. Vine - on the other hand - is one of the least consolidated branches, and the present interest system does not serve the purpose of a necessary and possible development at all.

Sectorial organization of vine production process is also especially complicated:

- in vine-grape production small-scale farms, small scale-commodity production, and large-scale production with out-of-date plantations as well as large-scale production with modern plantations partly in state farms, partly in cooperative collective farms have equally important role. Given sortiments determine production for long time and not the most favourably, and the technology of modern large-scale production is not yet quite developed either;

- in vine processing concentrated state vine-cellars play considerable role, however, own processing activities of vine-growing farms as well as small-commodity producers' are of greater importance;

- in vine trade beside essentially monopolistic

state trade, producers' sale rate represents an extremely limited role.

Interest relations manifested in the vertical chain of vine production process are not less complicated and problematic:

- producers' price as a whole and on the average is not sufficiently stimulating and does not make technical development from own resources possible, neither the overcoming of difficulties of low yield years; it even causes difficulties in the production of average years; besides offering extra problems in differentiation between production regions and vine - or grape qualities

- in vine processing price gap is not excessive by itself, however, the interest relation of this stage of production process is still problematic due to central withdrawals, as it results in consumers' prices too high to promote the increase of consumption, but too low to create own sources for the technical development of processing;

- the decisive element of the interest system is the measure of state withdrawal partly in the form of taxes, partly in that of enterprisal income withdrawal; this traditionally important state budget interest is such a great item in the interest system of the whole food economy sector which decisively influences the trends of both consumers' and producers' interest behaviour.

The stagnant demand for vine both on the domestic and the export market has an additional unfavourable effect on the above trend of interest relations. Increase of any extent requires the improvement of quality and sortiment, the reduction of sale prices respectively, which, in turn, is restricted by producers' and processing interests as well as budget interests. Under such conditions the whole interest system is problematic in this sector.

In this situation transformation of the interest system in such a way as to improve the position and pro-



spects of the whole branch by co-ordinating producers'-, processing - and trade interests, is of urgent necessity. Structural separation, and the conflict between producers'-, processing- and commercial interests are decisive factors in this. For the very reason, the only solution is to find the possibilities of creating common interests between these phases: complex regional organizations should be established as structural solution in which producers'-, processing- and commercial interests are realized together and which are suitable to create the decisive conditions of development at the appropriate phases of the vertical channel, and are able to concentrate simultaneously the necessary means at the critical points.

4. Cattle is the other least consolidated branch of our food economy. Compared with grape- and wine production however essential difference is that this production branch is unable to meet either domestic or export requirements.

From view of demand: situation in beef, milk and milk products is extremely stressed. In 1967 inland consumption to West European countries shows following pattern

beef meat	41,9 %
milk and milk products /according to protein content/	54,6 %
butter	21,7 %,

completed by possibilities of meat export to western countries, the increase of which seems reasonable both according to domestic and foreign predictions. Round 32-35% of beef production is exported at present; milk- and milk product export is not significant.

Vertical structure of cattle branch is especially complicated:

- cattle raising is divided between socialist large-scale farms and small-scale farms types respectively: majority of slaughter-cattle production is located in the

large farms, while cow stock and milk production is divided in fifty-fifty percent between the two sectors; dominant basis for fodder reserve of cattle raising are large farms. General life conditions act in continuous diminishing of small-scale cattle raising, whereas developing appropriate conditions for large-scale cattle raising is especially complicated and expensive;

- purchase and processing of beef-cattle and milk is concentrated in state enterprises: this can be considered as suitable in case of beef-cattle, but raises a lot of difficulties in milk: purchase and -processing;

- trade organization of beef - and milk supply is peculiarly insufficient; apart from export demand and urban requirements rural meat supply is permanently unsolved, and there is considerable lack in milk sale enterprise network, which is main factor of reduced milk consumption and which can only partly be made up by producers' direct sale activity.

The interest system existing in the vertical channel of the cattle production is also complicated and insufficient to certain extent.

Producers' interest in this field is more unfavourable than that of other production branches. Raising of producers' prices in 1968 and various dotations /favours granted to first calving heifers, increase of calving rate, reduction of purchase price of breeding heifers, fodder allowances, investment allowances have improved the profitability of cattle breeding, each of its branches shows however losses. Unfavourable profitability of the branch is reflected in the alternative utilization of the growing area. Profitability of commodity crop production and cattle breeding on the average of the last several years shows the following:

	gross income attainable on 1 cad.yoke	net income
in cattle breeding enterprise	500-600 Ft	800-900 Ft
in commodity crop production	3500-4000Ft	1000-1500 Ft

Permanent contradiction has developed between demand /domestic and export/ and production, for this reason progress in cattle breeding is not presumable under the present profitability conditions. The present support system is not able to eliminate this contradiction. Dotations of co-operative collective farms and homeplots gradually decrease in case of increasing outputs, as far as those of state farms increase progressively with the increase of output. For this reason every branch of cattle production is profitable on firm level in state farms, whereas in other sectors - which represent the majority of production - it shows a deficit.

Interest relations of processing and marketing from production to consumption of cattle products are characterized by considerable state support. A total of 52% price support is required for covering the costs of milk processing and - marketing, which is about 1,56 Ft per liter.

There is already possibility to withhold this sum of support for the producer in the case if it takes over the primary processing and sale activity, producing loose milk with 2,8 grade fat content, but it still remains a question, which production volume should be the lowest limit of profitability for the producer.

Cost accumulation in the course of milk product marketing is the following:

	Percent of producers price
- bottled milk	70-80
- butter	30-50
- cheese	70-100

	Percent of producers price
Costs of beef meat production	
- purchase and processing costs	9% of purchase price
- price support	22,9% " producers' "
- consumer's price is	95,1%

There is no considerable possibility of enforcing firm interest in formation of producers' and consumers' prices. Namely, purchase- and consumers' prices are fixed, and price conflict should be released by state dotations determined separately for each product.

The common interest of enterprises existing in the different vertical phases is not exactly expressed. Namely, the stock pilling in meat industry means distribution of a given stock; trade may give orders, receives however what is available.

Thus, a number of critical points is to be found in the interest system of cattle industry branch and they exist both in producing and the processing phase of industry. From view of solution followings are decisive: producers' prices of beef-cattle and milk, further, the release of over-centralized milk processing and -marketing as well as establishing possibilities for some forms of competition. Maintaining of consumers' prices at the present level needs inevitably state supports, their structure however, may be simplified according to the raising of producers' prices. Both are proconditions of the progress of cattle industry as well as of developing modern large-scale livestock keeping methods, which have not find its final technological pattern yet. Economic political constraints however tends to improve the conditions to the highest possible extent.

5. Swine is decisive factor of meat supply and represents a considerable proportion in export too. Still, the meat production branch cannot be considered as satisfactorily consolidated.

Organizational relations in the vertical channel of

production process are following:

- swine production is divided between state and co-operative farms on one hand, and small scale farms on the other in approximately fifty-fifty percentage. Up-to-date technological methods have not yet been overall introduced in large-scale keeping;

- processing and marketing is concentrated in state firms, but there is a considerable and increasing activity in this field in the farms too beside the high - though slightly decreasing - proportion of household slaughtering.

From economic aspect swine branch is characterized by a relatively uncovered demand in rural areas. Primary national economic interest depends therefore on the considerable increase of pig meat production as well as a simultaneous improvement of quality and reduction of production and consumers' prices. Interest relations of the branch are also not without problems. The average production cost 1 kg live weight is 21 Ft in state farms and 22,60 Ft in co-operative farms. Average marketing price is 22,20 and 21,50 Ft respectively, the state farms show an average 1,20 Ft/kg gain, while the co-operatives 1,10 Ft/kg deficit. This figure is positively modified by the profit obtained by home-produced fodder in most cases.

Producers' prices represent however a level, which requires price support /5-6 Ft/kg/ of processing and marketing beside the given consumers' prices, and the existing processing and marketing systems. And, since consumers' prices can hardly be raised due to economic and political aspects progressing possibility should be found in the reduction of producers' prices and racionalization of marketing, beside state support, required for the development.

There are two main critical points in the interest system of the branch: the reduction of production costs and the establishment of competition in processing and marketing.

Most important and insufficiently exploited source in the production cost reduction of slaughter swine is the reduction of input costs: i.e. the increased efficiency of fodders and improvement of broader sortiments should primarily be considered. Introduction of higher quality fodders by lower production cost may be considered as most rapid way of increasing the rentability of the branch. And over this, beside the limited possibility of new investments importance and necessity of the relative cheaper reconstruction should also be emphasized.

In the interest relations of processing and marketing favourable effect can be expected primarily from extending of competition. The enlarged processing and marketing activities of farms promises a widening in range of products and in the supplying of unprovided areas.

The present producers' and consumers' prices do not make the necessary technical development of the branch from own enterprisal resources possible. Therefore national economic interests are tied up with the promoting of introduction of modern technologies in slaughter animal production and - processing, by help of state support.

6. Poultry production is one of the most consolidated food economy branches and is in this respect an example for development of other branches too.

Organizational pattern are the following in the vertical channel of production process:

- both large- and small-farms have considerable shares in poultry production: in total production /of both slaughter animals and eggs/ small-scale production has higher proportion. In organised marketing relations, however, large enterprises play decisive role and within this modern broiler farms and "egg factories" are dominant;

- in processing and marketing activity concentrated state firms play leading role, while on live bird market proportion of producing farms is considerable.

Interest relations in this branch are relatively favourable, though production costs are rather high in small farms due to out-of-date production technology and in large farms due to insufficient reduction of specific inputs as well as the high prices of necessary equipment.

Production costs and profitability pattern of egg production, are rather differentiated according to farms. 1968. purchase prices afforded possibility for 10-15 fillér net income per egg in state farms, and 8-10 fillér in co-operative farms.

Cost- and income relations in broiler production show more favourable trend than the other branches of live-stock production. The majority of broiler production and -purchase is in the hand of co-operative farms, and only smaller proportion in state farms! The number of broiler firms with favourable input output rate raise both in the state and the co-operative sector. Average profitability in broiler production is characterized by a net income of 1-4 Fts per kilogramm meat. In other-poultry branches only some exceptional farms realize net income.

General introduction of modern technology forms the basis of cost reduction and income increase in broiler production; this takes place successively in the co-operatives and state farms. Preconditions of producers' price reduction are partly given in modern broiler production.

Poultry market is nearly saturated. Demand and supply relation of population is, however, rather differentiated in the individual poultry products. Broiler production /broiler chickens, broiler ducks/ approaches the upper limit of the sound demand of to-day, and a considerable decline in export possibilities may occur in sale problems on domestic markets. It is clear, that domestic consumption will be only able to absorb the increasing supply by reduced consumers' prices. Slaughtered poultry and eggs are subventioned export products at present, as well as the domestic consumers'

price of processed broiler products. Producers' prices - especially in case of broiler - show a decreasing tendency/e.g. in 1968-1969 broiler prices decreased by 2 Ftas.

Considerable proportions of eggs reach the consumers through direct marketing on free markets and the organized state market plays here only equalizing role. This is reflected in the prices too. Free market egg prices were by 10-20 fillér higher previously than that of state managed market; in 1967 free market producers' price was at 10 fillér lower than consumers' prices of state retail trade: this suggests an increase in supply.

Poultry production branch, as a whole, is characterized by the equally effective modern large-scale production and small-scale production, while in processing and marketing area concentrated state management activity and direct producers' interest complement each other. This conditions render an approximate fulfilment of requirements, progressive technical development of the poultry sector and reduction of consumers' prices possible.



## III.

Major business management and economic political conclusions resulting from interest relations

The new economic system gave also possibilities to the clear exploration of interest relations by arranging the fundamentals of business independency and by acknowledging the role of business interest in market relations through its active function. This conditions open the way to the explicit appearance of interest conflicts within the whole channel of production processes, and parallelly possibilities to their elimination, and further economic political goals of development became also recognisable.

Recent experiences are already sufficient to a relative exact distinguishing of these interest conflicts, i.e. economic necessities and possibilities of the required progress, and on this basis main general conclusions resulting from the emerged interest relations may be drawn up in the followings:

- position and firm policy of food-producing undertakings;
- processing activity of farms;
- direct marketing activity of farms
- necessities and possibilities of vertical integration,
- formation of prices and price support system.

1. The new economic system rendered conditions for food producing enterprises to consider their objective situations and judge their market relations and accordingly develop their firm policy. This given circumstances are properly perceived by the food producing, processing and commercial enterprises and this represents their main concern today. However it is not yet possible to form a final

opinion on this situation, consequently deductions based on it can not yet be sound foundations. In spite of this certain consequences may be drawn, main aspect of which is drawn in the followings.

a/ By marking the production trend of the future period, demand is the fundamentally decisive factor, thus in business decisions market requirements should be co-ordinated with the given conditions of the enterprise. In these considerations, however, permanent social requirements and the ability to meet them rather than momentary interests are determinative. Thus, production trends should be scheduled for broader perspectives, both regarding market possibilities and capacity of the firms.

b/ Technical development is an indispensable necessity in all production branches and all stages of the vertical channel of production process. In business decisions, however, realization of technical development should be very carefully executed. It is clear that modern technology warrants most effective production activity, still, by introducing them, the burdens of investments, given labour conditions and the period necessary for the adaptation should also be counted with e.g. rationalization of traditional technologies and application of transitional technical solutions should also be included by planning. As practical example: poultry- or egg production is allowed to be introduced in a large-scale farm only on modern technical level in co-operation with Bábolna State Farm or some other production centre, whereas in cattle branch any transitional keeping method, or technology are justified. Or - in food industry: developed technology of paprika drying should also be introduced, but traditional method of stringing and drying has also be applied in the co-operation of producing and processing enterprises, according to the need of local conditions.

c/ The main viewpoint is: reduction of production

cost. This remains a valid requirement in the decision making of each enterprises irrespective of the question whether market interest relations change or remain unchanged, or introduction of modern technological methods be possible or not. This is a permanent and decisive precondition for the own competitive position and perspectives of an enterprise and has to be considered in business management, work management and technological questions.

d/ Acquiring of an economic view is this way a general and important precondition of the right firm policy. And it should not only be adapted by firm directors, co-operative leaders or chief-accountants, but also by technical leaders, engineers and agriculturists, as otherwise technical development will not be efficient.

e/ Establishment of common undertakings and formations of their business policy represent a separate management problem. It is a general rule, that foundation of common undertakings, specialized by production branches and based on a modern technology is justified. There are however, two decisive preconditions of realization: investment capital, and full consideration regarding higher effectiveness of planned technology under the given or prospective market conditions of the production branch in question. Without sufficient production conditions a moderate development of the branch, within the former framework farms, is much more safe.

f/ Another separate problem is the consolidation and developing respectively of low income co-operative farms. Large investments, modern technology and intensive development cannot be spoken of even as general directives in the case of these farms. The application of transitional technologies and development of various subsidiary activities are justified and profitable here, and as special measure, the frames of collective farming should be reduced to branches able to develop under the given conditions, whereas the

other branches should be extended in form of reasonable co-operation with homeplots.

2. The expanding of processing activity in farms is generally justified by the reasonable utilization of capacities, development of competition and improvement of the interest relations. Still certain economic factors limits this trend of development. Processing activity of farms - either state owned, or co-operative - can only be viable if it is able to produce competitive marked products, or products without mark, at a lower price. Both alternatives have wide possibilities in many branches, thus complementary food processing of this kind, can be much farther developed. /Other segment of the complementary activities is the producing of production means and materials and the building industrial enterprise: this field offers also possibilities for development but competitiveness still remains decisive factor of it./

3. Direct marketing activity of farms can also be enlarged over its present stage to a high extent. This also has, however its own conditions: covering of effective domestic or export market requirements, permanent ability to meet the requirements of market: market organization activity surpassing in economic aspect and efficiency that of commercial enterprises, further, reliable fulfilling of undertaken transport obligations. Without these conditions any direct marketing activity will be a failure. However, the existing conditions make considerable development possible.

4. Realizations of vertical integration is highly important in almost every branch of food economy. It is especially justified by the common branch interest, which decisively determines the producing, -processing, - and marketing interests too. The fundamental and common branch interest demand an important efficiency of production for market needs and the reasonable foundation of conditions for the advancing of the production branches. Common interest has to be realis-

ed between the stages of vertical chain, and coordination of interests this way has to be realized.

This depends on peculiar structural conditions. Organizational forms should be found or elaborated which render the co-ordination of producing,- processing,- and marketing interests possible according to the economic position of the branch in question, and are able to concentrate the available means at the critical points in order to serve the development of the whole branch. The reorganization of the present Agricultural Product Marketing Centers /M.E.K./ to marketing agent of farms may be mentioned as example, or a proposal regarding the integration of individual vine production, processing and marketing units into regional organizations.

Such integrations are now developing, and their organization in nearly all branches is decidedly considered to be indispensable. In other word, this requires the foundation of single branch organizations, but much legal, structural and interest difficulties should be removed before this task is performed.

##### 5. Economic regulators of food economy interests:

producers,- sale,- and purchase prices as well as various means of state withdrawal and - support respectively. Fundamental economic political problem in this respect is the creation of a relatively favourable balance between market requirements and possibilities on one hand, and development conditions of production on the other. A significant stress exists between the dominant interest spheres in this aspect, main determinants of which are following:

- significant national economic and political interests are tied up with the maintenance of domestic consumers prices, whereas export prices are determined by foreign market conditions, with a tendency of decreasing prices and not of increasing;

- in agriculture and food industry utilization of industrial implements and materials as well as their prices, be

it domestic or import purchase, show an increasing tendency;

- development of food economy requires considerable financial-technical investments, which - under the given and prospective relations - cannot be covered from the own accumulation of the branch either at the phase of production or of industrial processing, and demands therefore considerable volume of state support.

Release of this stress, in other word, widening of the possibilities of development can theoretically be carried out at the line of any determining factor, thus raising of consumers, and consequently producers prices, reduction of industrial purchase prices and finally, raising of state support rate and reducing of withdrawals respectively are theoretically all feasible. Under the given economic political conditions none of the possibilities can be excluded in practice either. Still, reduction of industrial purchase prices can be considered as the most realistic solution; through an utilization of the internal possibilities of production cost reduction it may be the principal factor in releasing the stress. It is probable, however, that an adequate modification of the two other factors cannot be avoided either.

## DISCUSSION

## Section II.

Ottó GADÓ

Chief department leader

National Planning Bureau, Budapest.

Income and life conditions in agriculture

Projected an about 28 percent increase expected in the per capita real income of population and some 38 percent in that of agricultural population within, in the next five years.

Peasantry gradually transformed into double income families. Labour performance providing the average peasant income may thus originate in many cases from more than one sources. The lower the co-operative performance, the higher the possibility of work performed outside the co-operative - occasionally employed mothers of many children not taken into account - and of a double statistical consideration.

Within agricultural population an ever increasing proportion of family incomes originates from industrial, commercial, administrative etc. and not from agricultural sources. This fact makes any comparison between worker and peasant life standards especially difficult and complicated; these questions can be unequivocally clarified only with micro economic methods used.

Speaks deliberately about rural population instead of using the terms peasant and agricultural population; since the majority of rural population no longer performs peasant activities. The number of peasant population can be

considered to be 2,5 - 2,8 million, while that of rural population is about 5,5 million.

Agricultural population has all possibilities to keep pace with the increase in life standard of the wage and salary earners, though the factors of income rise will considerably change in the next 5-7 years.

Improvement in input-output ratio has great reserves in agriculture which provide the most important basis for a rise of life standard in the following years.

- Shares of the individual branches in the gross income greatly differ from those in the profit calculated on the basis of cost and price.

- Cost distribution between products or even production branches is still rather uncertain.

- Problems of taking wage costs into consideration are well known.

- Accounting prices applied in vertical relations, especially for feed utilized in livestock enterprises, may distort the firms' aspect.

Ferenc KALOCSAY  
department leader,  
Research Institute for Agricultural Economics,  
Budapest.

The concept of wage, its rate within the share, and the way of accounting it as a cost element have not perfectly clarified yet.

1. The personal income share paid as wage is the function of an earlier attained income level. As a result, there are great differences between farms, influenced first of all by income differences rather than by labour conditions or labour performances.



2. Thus, the principle of equal wages for equal work is not realized either within the sector, or between the sector and the other branches of national economy, moreover, wage regulations - though indirectly, by tying it up with the income and basis respectively - deny the validity of this principle.

3. For the above reasons, highly diversified costs more or less independent of the actual volume of work are accounted as labour costs. Consequently actual cost cannot be determined, the production cost distorts, there are difficulties in developing and controlling prices, eventually, net income cannot correctly be determined.

4. Wages and complementary shares cannot be correctly separated in practice. Namely, complementary shares ought to be paid from the net income. Latter cannot be, however, properly determined, owing to the way of accounting live labour costs. Hence, in practice, part of the payment given as a complementary share may be of wage- and labour cost character respectively, but it may happen that payments given as wages include net income parts.

Károly INCZÉDI

Regional Association of Co-operative Farms  
in Komárom County.

A main element of individual and firm interest relations is the employment problem: broader complimentary activity field of cooperative farms serves both interest levels and means a kind of industrialization. Economic stabilization of cooperative farms with unfavourable conditions is also best promoted by the parallel industrialization of the commodity.

Mrs Magda NÉMETI  
Research worker  
Research Institute of Agricultural Economics,  
Budapest.

The profitability of extending poultry production branch hides in production sources. Five years ago 3,5 - 4,5 kg fodder was used to 1 kg broiler meat, in 1968 it was produced from 2,6 - 2,8 kg; and to-day, highly productive poultry farms do not use more than 2,0 - 2,2 kg fodder to 1 kg live weight in broiler production. Time of fattening has shortened due to up-to-date technical conditions, good quality breeding stock and more efficient foddering. The previous 63-70 days of fattening decreased to 53-57 days. Specific production cost of broiler decreased and allowed a decrease of consumers' prices in 1969 possible.

Appart from other possibilities - e.g. growing proceeds by market manipulation - the reduced production costs are best ways for income increasing in two solutions: through infarm cost decreasing and, by influencing the price level of materials of industrial origin used in broiler production.

The economic pressure attaches the interest level of the farms from two sides: increase of input factors' prices, and decrease of producers' prices.

At present, slaughtered poultry and eggs are subsidized export commodities, and domestic consumers' prices of processed broiler are also granted.

Sándor BELÁK  
Rector  
Agricultural College, Keszthely

The researches carried on by the Institute for Pro-

duction Development of the College, also confirm the importance of cooperative subsidiary activity and household farming in providing the cooperatives and cooperative members with sufficient incomes. In the 52 cooperatives studied in Veszprém, Zala, Vas and Somogy counties an income of 6,20 Ft per work hour is obtained from collective farming, while 7,95 Ft from household farming. Share-farmwork in the collective farm ensured an income of 8 Ft per working hour is an exception.

Lajos SZEMES

Department leader

Research Institute for Agricultural Economics, Budapest.

Considers the role of firm interest in the development of certain branches as being more important than pointed out in the lecture. Referring to the cattle branch says, that both material and social factors play important role in the development of branches.

György TAKÁCS

Chief department deputy leader

Central People's Control Committee, Budapest.

Growth rate of Hungarian food economy depends - mostly on the question, to what extent the newly developed economic regulators contribute to a balanced relation between market and food production and between agriculture and purchasing, processing industries. Further question: how far regulators influence investment activity of large farms in order to fulfil national economic demands and the undisturbed realization of agricultural commodities. Investment regulators, however, changed the investment structure of the last year: farms used their resources mostly for building investments instead of machines and plantation

because state support given for maintaining old machines seemed for them more favourable and 3000 new tractors of the AGROKER /agricultural trade enterprise/ became at the same time an immobile stock, though - according to the objective demand - they would be needed in agriculture.

The otherwise, and generally correct principle of preferring investments, ensuring a more rapid recovery and by so doing, starting a competition between investment demands should be realized with a careful circumspection as long as one-third of the Hungarian cooperatives operates under low conditions and the employment of cooperative peasantry working in them cannot be solved from the side of industry or by developing the infrastructure.

József JANKÓ

Professor,

Agricultural College of Mosonmagyaróvár.

It would be worthwhile to examine the efficiency of the interest system - especially in raw material production, to state, whether a lower number of simpler means, or complex means may be more efficient.

János FELFÖLDI

Department leader

Research Institute for Agricultural Economics,  
Budapest.

Buyers and their market requirements have not important role in the turnover of agricultural machines, and market methods are pushed into the background.

"Under present conditions a special method of widening the assortment and improving the mechanization has developed. The duty of developing the machine stock has been undertaken by the Department of Technical Development of the

Ministry for Agriculture and Food, which in many cases deals with developmental objectives as far as to the types, and finances and supports, respectively, the developmental activities of various institutes and factories. By this activity the Department takes over a highly important part of task the development activity of factories and trade. This undoubtedly significant and useful activity has, however, a by-effect namely, market research aimed at assessing the quantitative and qualitative machine requirements of farms remained only at an initial stage."

Sándor KOVÁCS

Managing director,  
Preserving Factory, Nagykőrös.

Emphasizes, that vertical co-operation means a simultaneous proportional participation in responsibility.

Future development may disclose new possibilities of co-operation too, and may extend the significance of some of them, but the facts that the interests are common, long-range interests are of decisive importance and relations should be developed on this basis, must by all means be unequivocally accepted in the whole vertical system of vegetable- and fruit production.

Sándor LAKATOS

Inspectorate of the Central Market Hall,  
Budapest.

Direct marketing activity of producers is a positive phenomenon, especially in cases when consumers' demand on fresh commodities is justified. Due to the so called multi-channel commodity turnover, fruit- and vegetable supply was more satisfying and of higher quantity and quality in the last year, in spite of the unfavourable weather conditions.

Miklós MENTÉNYI

Department leader,  
Ministry for Agriculture and Food, Budapest.

The unsatisfactory elasticity of financing forces enterprises to neglect prescriptions of administrative nature.

Common interest in the vertical system of production, processing and marketing - including foreign trade too has emphasized importance and requires rapid realisation.

In lack of common interest market effects running through the whole system will be prevented.

József NAGY

Director  
State Farm, Pécs.

Does not agree with the threefold division of interest sphere. Firm interest should not forcibly be separated from national economic interest; acknowledgement of personal and national economic interest is, accordingly, sufficient.

/Ferenc ERDEI - reflecting at this statement - said, that even the lack of recognition of firm interest results in an unsatisfactory activity of certain farms, meaning, that they still do not follow the new economic principles in their actions/

János MÁRTON

Chief department leader  
Research Institute for Agricultural Economics, Budapest.

Economic research work draw numerous conclusions concerning the structure of food economy in the capitalist

countries, and the efficiency of vertical organizational forms of food production, -processing and - marketing.

"The findings - if not the most important ones but those proved, scientifically - are the following:

1. The various organizational forms of vertical relations are organic elements of the socialist commodity management at least in the same degree as they are in capitalist commodity management.

2. Scientific research has not arrived at any uniform model concerning vertical organizational solutions. On the contrary! Both analyses of concrete experiments and model calculations or scientific systematization of international experiences equally suggest that each branch requires a different vertical organizational form.

3. Still a general regularity seems to take shape in food economy: the tendency of development is most efficiently represented in food economy by regionally organized large size vertical branch systems on one hand, and large-scale enterprises embracing vertically the activities of production processing and marketing, on the other.

Besides these two basic forms numerous transitional solutions have also reasons for existence, depending on the developmental stage of production forces, and to a high extent also on subjective conditions.

4. The opinion in which higher forms of vertical organization, even vertical integration itself, are only necessary when the forces of production attain a higher level of development, is not justified.

Backwardness of production forces can more easily be eliminated in all phases by use of vertical forms of economic organization. This is the experience obtained when studying the capitalist economy.

5. Industry penetrates agriculture to an ever increasing extent not only by its technical means, but also by

giving a good example of organization and structure, and stimulates to studying the possibilities of developing co-operational organizations embracing all economic processes up to the final product.

The question is: how can higher economic results be attained by a lower social input, through the vertical organization of economic management?

Closer forms of vertical cooperation between undertakings can be realized by deliberate actions of economic directing organs.

It is very difficult, even almost impossible to recognise the common vertical interest in the present registration and information system in general. But who could make the partners operating in various phases of the vertical system aware of their interdependence? One of the centres of this task is undoubtedly the profession of agricultural economics."

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Concerning the difficulties of transition period followings were stated:

Cooperatives and state farms try to escape the price gap in three ways:

1. they try to receive the highest possible state support, credits, dotations, etc.;
2. they extend their activities beyond agricultural production to marketing, processing, or to industrial production and service outside the food economy;
3. finally, within the given limited possibilities they modify the structure of farming in favour of more profitable branches, and combine this step with rationalizing their farm organization and reducing costs.

In a peculiar way, their efforts are directed to a relatively limited extent towards the fourth solution: the technical development. This phenomenon is in connection with



the fact, that increased utilization of production means of industrial origin seldom results in cost reduction and higher enterprisal and cooperative incomes respectively.

It is in this very field, the field of improving the forces of production, that a further extension of vertical relations, mainly within the frames of regional undertakings of large dimension, may bring about a more rapid progress.

István SOLT  
Managing director  
Dairy Trust, Budapest.

Presented the development in milk production and milk processing and suggested a number of reasonable solutions concerning a closer cooperation between dairy-farming and milk industry. In case of dairy-farms producing large quantities of milk, processing milk within the farms and even delivering milk products to the trade organs is more economical.

It is a rational solution not only because the units of the Dairy Trust will not have the capacity to keep space with the increasing milk production, but also because initiations by the producing farms will stimulate the workers of the dairy industry and a sound competition may develop.

Ferenc VÁGI dr.  
Professor,  
"Marx Károly" University of Economic Sciences,  
Budapest.

During the last ten years accumulation has considerably increased in the cooperative farms, both in absolute value and as related to the total income. In 1962 16,3% of the utilizable gross income part was accumulated - including amortization -, between 1962 and 1966 this proportion was 18-21% percent, while in 1967 it was already over 23%. In

the last 3 years 60-62% of the net income was accumulated. At the end of 1967 accumulation funds of farms amounted to 4,7 milliard Ft /including security funds/ and amortization funds to 1,6 milliard Ft.

In the cooperative sector the extent of accumulation is differentiated. In the low income cooperative farms accumulation was 340 Ft per 1 cad.yoke as compared to a cooperatives' average of 620 Ft. In the best farms 800-1100 Ft per 1 cad.yoke is the rate of accumulation i.e. two or three times as much as in the low income farms.

The rate of accumulation shows a less differentiated pattern if investigated according to its rate per working agricultural cooperative farm member.

There are a considerable number of cooperative farms unable to produce net income by their own farming activities. Therefore the various forms of state support should be considered parameters of farming just the same way as prices, taxes, etc.

High density of membership often hinders the attaining of net income by own activity, and checks the further extension of production.

Realization of accumulation from the profit has developed in the state farms since the introduction of the new economic system. Preliminary data of 1968 show that state farms use 25 percent of their gross income as net income. Their output is about 1,1 milliard Ft, out of which 54% remains within the frames of farms, the rest is paid back as taxes to the state budget. Round 334 million Ft 56% of the profit retained in the farm, is kept up for development funds, the 44%, about 260 million Ft is used to share funds.

As contrasted with the accumulation sources of cooperative farms, two peculiar features are shown here.

1. State farms pay a larger proportion of their net incomes to the state than cooperative farms do.

2. In the state farms development funds are considerably smaller than amortization funds, while in the cooperative farms accumulation funds are about three times as high as the sum of amortization.

Only those farms will be capable of progress, which will have a determined proportion between accumulation and fixed-, and current assets. Beside profitable farms there will be a considerable number of them which cannot carry on profitable farming: state support will continue to be indispensable to maintain and operate them.

Indirect income withdrawal is realized through prices. This method has been considered as the most useful way of withdrawing differential incomes, though it is by no means a sufficiently efficient method of state influence exercised on enterprisal activity. While it reduces the absolute amount of differences existing between incomes, at the same time promotes the dispersion of incomes.

A new form of state withdrawal introduced in the middle of the last year is the regulative tax aimed at influencing the proportion of income used for wages and accumulation. Its effect on farming cannot yet be assessed; a thorough analysis can only be performed with detailed data available.

Our agricultural undertakings would like to receive longterm credits of large sums, while the National Bank hardly grants the half of them. The relation between creditability of farms and long-term credits granted should be examined without any delay.

Iván GÖNCZI dr.

Professor

Agricultural College of Debrecen.

Having thoroughly analysed the causes and consequences of differentiation in enterprisal and personal incomes in food economy, attention has to be called to certain distortions in the interest system of cooperative farms which should by all means be eliminated in order to moderate the income differences.

A serie of economic political regulations issued in accordance with the directives of the new economic system aimed at levelling, or at least decreasing the outstanding differences in incomes. Credits of quite a number of poorly operating farms were cancelled; a new land tax system decree determined a progressive tax rate for better conditioned cooperative farms and ensured exemption from taxes for farms /under 4 gold crown/ areas; a new supporting system helping the poorly conditioned cooperatives with highly varied methods /price support, income supplementation, longerange dotation, investment support, credits, etc./ has come into force.

Experiences obtained so far show that - although income level of unfavourably conditioned cooperatives has also been raised and reached a constant definite minimum personal income - the relative income difference between insufficiently and well operating cooperative farms has still increased instead of decreasing.

Income differentiation of cooperatives is undoubtedly highly problematic equally from social, national economic and firm aspect. Although in the new economic system differentiation of personal incomes according to enterprisal results is considered one of the most important factors of stimulation, differences in cooperative farms' personal incomes go beyond limits reasonable from either in-

centive or social points of view. A part of these income differences - on the other hand - is result of a differential income more or less independent of the working membership, and not a function of a justified enterprisal profitability.

Dispersion is too high to be justified from the point of view of economic stimulation or to be maintained without a social stress.

Ervin ZSUFFA  
Ministry for Agriculture and Food,  
Budapest.

Categories used in income studies should be altered, or at least adjusted to reality in a way to make them suitable to draw macro-economic conclusions and - if necessary to take regulative measures at a national economic level.

Mrs Aladár MÓD  
Chief department leader  
Central Statistical Office, Budapest.

Referring to Mr. Gönczi's lecture:

"When comparing 10% from lowest agricultural income strata to the 10% highest the Statistical Office found that the difference between incomes originating from collective farming alone is really very high, about tenfold. However, when collective and homeplot farming are considered together, the difference is only fivefold as it is well known that both complement each other. And if total incomes, i.e. those originating from collective and homeplot farming and from non-agricultural wage incomes, the difference is a mere threefold. Thus, in the income of agricultural population dispersion - in fact - is similar to that of other fields of national economy. It is from this point that we must start when establishing the interest systems."

/Mr. Gönczi answering to Mrs M6d; Hungary has no such completely reliable and unambiguous statistical data as including the joint consideration of collective and homeplot incomes. Representative statistical data should be looked upon with adequate criticism. In the case of a poor homeplot income, accompanied by high collective and other incomes, income dispersion is lower than when both homeplot and collective incomes are very low, and no other employment is possible, as for example in certain east Hungarian regions. The question is, how these three elements are built on each other. Be it in form of a model, it may contain subjective or voluntary elements in an unrecognisable rate, or according to the patterns of the real situation. If the two extremities are chosen according to the actual situation, income dispersion is essentially higher in the cooperative farm sector than in other branches of national economy.