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BULLETIN
No. 70.

RENEWAL PROBLEMS OF THE
AGRICULTURAL AND COOPERATIVE POLICIES
IN HUNGARY

BUDAPEST
1988

RESEARCH INSTITUTE FOR AGRICULTURAL ECONOMICS

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INTRODUCTION

On request of the Ministry of Agriculture and Food a work team was formed in February 1988 from senior researchers of the Research Institute for Agricultural Economics to elaborate certain conceptions about the renewal of agricultural policy.

The work team was conducted by director general Béla CSENDES.

The researchers performed a critical analysis and summarized their conclusions as well as recommendations about the necessary modifications in four thematic groups. These thematic groups are the following: I. The necessity of the renewal of agricultural policy, alternatives for the growth and structural transformation of agricultural production. II. Modernization of the social-organizational-institutional system. III. The situation of the production factors in Hungarian agriculture and the major trends of their changes. IV. The economic environment and necessity to modify the regulators.

In the first thematic group surveys were prepared about the fundamental necessity of the development of property relations (by Béla CSENDES); about the potential alternatives of the growth and structural changes of agriculture (by Gyula VARGA); about the international development trends of agricultural policies (by Mrs. Irén PÁLOVICS).

Researchers working in the second thematic group prepared surveys on the development tendencies of the enterprise structure in Hungarian agriculture (László CSETE); on problems related with the renewal of Hungarian cooperative policy (János GYENIS); on the situation, role and importance of small-scale agricultural production (Gyula VARGA); on the sectoral problems of food industrial and on the necessary renewal of its enterprise structure (Márton SZABÓ); on the possible development of cooperative and integration processes, organizations and institutions which occurred in food economy (Mrs. Katalin SEBESTYÉN).

In the third thematic group papers were prepared on the following subjects: land-use, protection of land, environment protection (László DORGAI); technical development and means' supply (Mrs. Katalin SEBESTYÉN); regional problems of agriculture (László DORGAI); modernization processes, innovation, education, research and general culture (László SZENDRŐ).

The fourth thematic group dealt in surveys with the problems of planning, market relations, price system and incomes which affect food economy (Mrs. Irén PÁLOVICS); the problems of the financial aspects of agricultural policy (Mrs. K. BOTOS); the situation of the agricultural market and agricultural trade, their development prospects and the necessity to put its further progress and regulation on new bases (András ÉLIÁS, János KARTALI, Mrs. Mária O. NAGY, Ágnes OSZOLI, Tamás UJHELYI).

The surveys - based mainly on the former research results of the authors and on the critical analysis of related publications in special literature - were completed for March 1988. Discussions organized in the Research Institute for Agricultural Economics, consultations and exchange of views carried out with senior officers of the Ministry of Agriculture and Food as well as remarks suggested at the debates of the Commission on Agricultural Policy of the Ministry in May played a significant role in the final working of the papers.

The papers were published by the Institute in July in two volumes and later when their republishing seemed to become necessary then this happened in a somewhat reedited and further developed version.

The five papers published in the present Bulletin were selected from this latter version. The topicalness of the analyses of the prevailing conditions, conceptions and recommendations presented in the publication did not alter at all; the scientific conclusions published here represent the starting theses and major problems of the further development and renewal of the agricultural and cooperative policies in Hungary.

To finish with we should like to remark that No.67 of our Bulletin series (Papers on Hungarian agriculture) dealing with the historical development and analysing the situation of our food economy can be regarded as the direct predecessor of our present volume on agricultural policies but in compliance in a broader sense with the trends and nature of the readers' interest also the Appendix of Bulletin No.66 (Abstracts of the selected publications in 1987) may serve as information by supplying a bibliographical register of the Bulletins published in course of 25 years.

Budapest, December 1988

The Editors

Béla CSENDES

FURTHER DEVELOPMENT OF THE MANAGEMENT MECHANISM OF
AGRICULTURE IN HUNGARY

The first major step to reform the management mechanism was made in 1968 when the means of economic regulation became characteristic for the management of the business organizations instead of directives ordered by the plan.

The methods of economic regulation constantly altered in course of the past two decades whilst in consequence of several factors the reform process itself even stopped during the 1970-es. In the period which followed 1975 the economic regulators served for prevention against the effects arriving from markets abroad and for their mitigated transmission.

From 1979 on significant changes took place in the economic policy and these changes exerted important influence also on the system of economic management. The improvement of economic balance became determinative in both economic policy and the practice of management.

Beside the system of economic regulation the changes of economic management introduced in 1979-1980 embraced also the institutional and organizational systems. After 1984 the reform process accelerated. Manyfold changes took place in the systems of the enterprises, organizations and management. About 200 new business organizations came into being, the lasting inter-enterprise relations based on collective interestedness in profit as well as their types augmented, the right to create business organizations increased, the organization of new units of independent interestedness within the enterprises accelerated and several thousands of small-scale undertakings were established.

In course of the recent years the realization gained ground that the reform process must be accelerated and it can

be resultful only in the case if it would embrace also the political-social relations.

It became also obvious that the reform process should cover the property relations and the relations of organization and of internal interestedness also of the agricultural business organizations (state farms and farmers' cooperatives).

1. Social-economic renewal trends of the agricultural business organizations

The results achieved by Hungarian agriculture in course of the past quarter of century are well known. Our agricultural and cooperative policy which took the prevailing conditions into account, the system of economic management as well as the co-existence of large-scale farming and small-scale production excited also international interest and acquired world wide respect.

Why should then our agricultural policy be re-considered and why should the same be made in respect with our agricultural management system, farming methods, property conception and mentality of the producing people? Several reasons are known for this; the changed inner and external conditions, the increased performance requirements dictated by the former. A mistake would be, however, to explain the innegligible necessity of the changes only with the aggravated conditions. The deficiencies of our former economic management also augmented the existing troubles on the one hand while our resultful methods may become retracting forces on the other hand if we do not alter some of them.

Our idea about socialism is also changing - and fortunately we are not alone in this respect - our opinion about the economic and social role played by the state, the functioning of the system of political and social institutions, the role, rights and demands of the members of society, etc. are radically altering. This all are pressing changes of a well defined tendency in our agricultural policy. The potential human ini-

tiatives, the assuming of risks, entrepreneurial abilities are to let evolve. The determinative source of any success lies in this. The continuation of the reform of economic management, the re-arrangement, multifarious development and enrichment of the social relationships are needed for this end.

The scholars of diverse sciences, sociologists, jurists, economists size up critically the results and troubles of Hungarian agriculture in their particular disciplines. They urge the changes and many of them also formulize concrete proposals. There are people who swear on the family farms, others are writing about the managing of agriculture by technocrats, others again stress the ousting of peasant managers. Many of them suggest radical changes in the property types (joint-stock company, property of foundations). We may witness a multifarious and vigorous seeking for ways and means.

Also the main trend of the changes is outlined: in contrast with all embracing extension of the large-scale farms the increasingly clear realization of the necessity of small- and medium-scale production units, the encouragement of the inner structure of the large-scale farms articulated according to interestedness and the strengthening of farmer-owner attitude.

The problems dealing with the new types of internal interestedness and with the development of undertakings are fitting into this trend.* These are not merely economic formations improving the efficiency but also those forming society, public life and democracy in a broader sense. Without them the evolution of a spontaneously active society constructed from below could hardly be started. Neither the enriched content of life in the rural settlements, the development of the communal conditions through integrated spontaneous efforts would be

*Several types of them exist in the practice: collective plantations established with the money of the members, leasing of animal husbandry farms, allocation of livestock to the household plots, cultivation paid in proportion to yield, small cooperatives, joint economic working teams, semi-independent units interested in the profit, etc.

conceivable without progressing those types of the internal interestedness and undertakings which strengthen the attachment of the owner.

The practical and theoretical approach to the development of agriculture became a reduced one for a longer period. We treated the existing social property relations in a simplified manner; we did not analyze them at their full extent and the major attention was turned to regulation, we considered the fundamental production relations to be correct in the most part and we thought that they are unquestionable from the aspect of ideology. Many people had the hope that the progress of technics, technologies, enterprise organization and organization in general will automatically settle those troubles which arose. The attitude of simplification was encouraged by the fact that our agricultural policy was set on new bases in 1957, then by the rapid gaining ground of modern technics in the socialist large-scale farms and the spectacular quantitative growth of production achieved under their effect.

By having experienced the former impressing progress and favourable results of agriculture many people thought that everything goes well there and the further progress of the reform is important only in the other branches of national economy. This was the source of those opinions in which the enterprise structure of agriculture is already completely established and there is no need e.g. for small cooperatives, the voluntary modification of the type of cooperative propriety was forbidden and the real inner articulation of the large-scale farms according to interest was aggravated, etc. This all menaced with the danger that the social-economic reform process of those days might keep away from agriculture. At present we already got over these opinions. The realization becomes more and more general that the agricultural policy must be reconsidered in respect with good many problems of agricultural economic theory.

In course of the 1960-es the system of work units based on interestedness in the rest of profit was replaced by the application of guaranteed labour remuneration which brought important results. It created ambition to work, improved the living standards of the peasants, contributed in the agricultural progress. Taking this all into consideration, however, the theory exaggerated the industrial analogy and also the practice of economic policy confirmed the idea that an agricultural business organization should function in the same way as large-scale industry does. "High-technic" became a slogan and under the headline of extending socialization a campaign was started for the amalgamation of the cooperatives while household production was disapproved. Production and property relations became simplified the producers alienated themselves from the collective property. The economic direction and frequently also the theory forgot that agriculture represents the direct symbiotic contact between mankind and nature. People working in agriculture are dealing with living organisms and this demands also special production and interestedness relations. The fact that the interestedness of a wage worker did not become as general in the agriculture of the advanced world as it did in industry is also in rapport with the above aspect.

The general prevalence of the wage category was shortly followed also by unfavourable effects in this country. Attention was focused excessively only to organization and control, hierarchical relations began to strengthen in direction and power, cooperative democracy weakened and soon after this a wage regulation alien from the cooperative character and from the farming based on living organisms and exposed to climatic extremities of agriculture was established. The interestedness of the wage worker became characteristic, while the farmer and proprietor mentality, the initiating ability and the assuming of risks wasted away.

In course of the past 15-20 years the practice of the business organizations advanced more rapidly than theory in ag-

riculture from several aspects. Good many cooperatives and state farms sought ways out better suited to farm management and to the cooperative relations. As a result of this was cultivation paid in proportion to yield introduced in Nádudvar, and also the progress of household farming, the realization of plantations by the specialized groups, the experimenting with lease, the placing out of livestock and the small-scale undertakings were all correlated with this. They are all methods which serve the further development not (or not only) for the wages but that of the types of sharing based on the results achieved which might foster the undertakings of producers, the proprietors way of thinking and a reasonable adapting to the existing conditions.

The general prevalence of farming in a closer sense of the word demands enterprise relations, labour organization, internal management systems and external economic environment being different from the present ones. An excellent terrain is offered for this by the variegated types of internal interestedness and undertakings which exist in the practice of the business organizations.

The theoretical elaboration of the types of internal interestedness and undertaking, the elucidation of the conditions needed for their propagation, the survey of their social-economic effects may accelerate their gaining ground, the enrichment of their more advanced types and this way they can be serviceable in solving many of our problems. Among them I am going to stress the following ones:

- The enterprise structure of agriculture is based upon large-scale business organizations on the one hand and upon small-scale farms on the other. The co-existence of these two renders possible a relatively efficient labour division through the important integrating role of the large-scale organizations. We got over the principle "what is bigger is always better" and we do not declare that the large-scale organization is able already to produce everything economically. The gaining ground

of the internal interestedness relations and of the types of undertaking, the working up of experiences and their theoretical generalization may assist in the more deliberate, purposeful and efficient progress of labour division. Its further development may fill the gap caused by the lack of medium-scale organizations in several fields at the same time.

- The structural changes adjusted to the market relations cannot be delayed any longer. Probably it can be managed neither by large-scale programs. Such organizational, property and interestedness relations are needed which render possible a flexible and rapid adjustment to the changing conditions and which are suitable to discern the modification of the demand in respect with labour intensive products of small quantities. In the case of convenient economic relations the internal limits of interestedness and undertakings which dispose of great independence as well as the small-scale farms are able to manage this. Different production structures are preferred by the large-scale and others again by the medium- and small-scale units.

- The well chosen types of internal interestedness and undertaking which dispose of great independence and of ownership characteristics may further the efficient development and modernization of the large-scale farms. They make use advantageously of those real properties and equipments which cannot be operated efficiently at a large-scale, they may assume development burdens, they enable the large-scale organization to concentrate its material and intellectual resources in the spheres most suitable for that.

- They can turn additional sources to production since in the case of convenient arrangements they can invest their own financial means in production. Through encouraging the family members to join, through the care and initiative of the owner they mobilize those forces which in the case of wage worker interestedness would have been wasted.

- In the case of progressed interestedness relations which can be reduced at a final end to commodity-money relations the types of internal interestedness and the undertakings may establish the existence, the mind and farming of the proprietor at different scales, mobilize immense social and economic forces. They may alter the propriety's way of functioning, fill social property with a new content.

- The cooperative formations which became emptied in some places can be filled with real cooperative and proprietorship content. For this end, however, it is necessary that the cooperative should really serve the interest of its members. Management should act in a way complying with the farming, welfare and interest of the members, the hierarchical management based upon power relations should be transformed. The completion of internal interestedness and undertaking may set cooperative democracy on new bases and it also necessitates this at the same time. The undertakings, tenures, arrangements of interestedness cannot be really correct if their conditions are not based on publicity corresponding to the intention and interest of the members. Equal chances, competition must be provided for each member. The fulfilment of the assumed obligations must be seriously exacted but also the conditions for this should be guaranteed as negotiated in agreements.

- The progressed types of the arrangements of internal interestedness and undertaking are serviceable also for exciting interestedness in the assets. Though they cannot replace the interestedness of the business organizations in their assets (which should be created as soon as possible but still several theoretical problems are to be solved previously) nevertheless they may call into being in certain partial spheres the direct interestedness of diverse labourer groups in the increase and optimum use of the assets.

- Several stages of internal interestedness and undertaking can be observed in the practice. There are cases where

independence is only formal but also such types occurred already where money-commodity relations were created and the undertaking groups dispose even of own bank accounts. Here the regulators, the effects of economic environment exert a direct influence upon the internal units. The gaining ground of arrangements like this expectably will be accelerated. They are the most serviceable ones for transforming large-scale economic management from within and they may lead to a point where the large-scale business organizations are transformed, they manage an internal renewal and concentrate their activity mainly to the organization of undertakings whereby their functions of increasing and integrating the assets are coming into prominence.

- Experience shows that the independent, separated and progressed types of internal interestedness relations and undertakings are gaining ground particularly rapidly in certain enterprises (animal husbandry, horticulture) while the modernized versions of interestedness corresponding to the traditional schemes of large-scale labour organization are characteristic for enterprises being efficient in large-scale production (mainly grain production) on the other hand. So the unquestionable superiority of large-scale production becomes proven.

It can be observed that while no adequate attention was turned to social property relations for a long period and the business organizations experimented with new arrangements at that time then at the present the development of property relations come to prominence in the economic theory. Variegated conceptions and recommendations are formulated. The scientific seeking of ways and means is fortunate, the great variety of multifarious conceptions, the vehement discussions and impatience can well be understood. After 1957 corrections were made with a correct tendency from several respects in Hungary but there are still many things to be changed in our economic management and property relations.

The arrangements of internal interestedness and undertaking alter the functioning and certain characteristics of pro-

erty and therefore their survey in respect with the conception of property is justified. I should like to join to this problem only upon the basis of certain experience gained in the past.

The rapid and radical breaking of the organical processes going on in agriculture, the enforcing of excogitated, simplified schemes caused too many troubles in both the economic and social spheres. But there were always sufficient flexibility and inventiveness in agriculture and this enabled it to correct the faulty schemes. The direction tolerated at the outset and later supported these settlings produced by the practice of life. This is an important lesson also for the present. Simplified solutions must be avoided, while multifarious, variegated arrangements adjusted to the existing conditions are to be allowed. The introduction of the types of internal interestedness and undertaking should not be pressed. Campaigns for their propagation may cause only troubles and discredit the correct solutions even. Neither those efforts could be supported which do not reckon with the conditions adequately, by setting the task to change economy as a whole radically with a single blow.

Variegated solutions are needed also in the property relations; property of the state, cooperative property, private property, combined property, joint undertakings, etc. Here also the pressing of excogitated, simplified schemes should be avoided. As a basic principle should be regarded that the one should be the proprietor who wants to be and the proprietor should be of the kind (upon the basis of the modernized social property) which is the most adequate. Experience gained in respect with the types of internal interestedness and undertakings show that the type of property begins to be outlined which is the most acceptable one for the labourers of agriculture.

In the case of certain modernization (the rearrangement of the indivisible property, the restoration of cooperative democracy, internal articulation, the undertaking of families or groups, etc.) cooperative property may represent the adequate type also in the future in agriculture. The company of share-

holders, the foundation property and the communal property can be introduced exceptionally and in a narrow sphere only but I do not think that it would be a viable way in the broader sphere. They gained ground neither in the agriculture of the capitalist countries and this cannot be causal. The development and changing of the property relations can be implemented also within the scope of a gradual progress only.

2. Economic environment and the modernization of regulation

The development of the external economic environment (state control, prices, taxes, credit, etc.) is an urgent task. Without that the social-economic renewal of agriculture would be unimaginable.

To maintain the safety of production and realization is of fundamental significance for further development. This cannot be easily concerted with the requirement that agriculture and food industry should - beside the continuous satisfaction of the inland demand - adapt themselves as rapidly as possible to the lasting trends of markets abroad and in the short term as much as possible also to their business cycles.

The perspectival safety of production can be provided through the consolidation of state guarantees attached to the most important agricultural products and adjustment to the market can be implemented through a closer connection of supply and demand. State guarantees - if even with interruptions, delays and incalculably - asserted themselves also heretofore in the practical economic policy. They should be rendered more perceptible, safer and more perspectival for the agricultural producers.

The approaching or equalization of the worker-peasant incomes represents a cardinal problem of agricultural policy.

The absolute and relative improvement of agricultural incomes achieved in course of a longer period is an important success of agricultural policy. In the first half of the decade

of the 1980-es unfavourable tendencies evolved in this respect. The disparity between the net income content of the agricultural and industrial prices increased. The share of agriculture within the investments gradually reduced. The level of average earnings in the farmers' cooperatives lags behind that in industry, in 1985 it was by 14 per cent lower.

As well in the whole national economy as in the agricultural sphere a fundamental requirement is to adjust the structure of both production and inputs to the changed conditions.

Relationships between agricultural production and food industrial processing should be made closer: by creating on the one hand the material-technical conditions of processing in the large-scale agricultural business organizations and by establishing on the other the common interestedness of the agricultural producers and food industrial firms.

The key problem of competitiveness is to consolidate and increase the improvement of efficiency in agriculture and to let it evolve in the food industrial processing. The most important way to this is scientific-technical development but also financial source more abundant and material-technical means better than the present ones are needed for this end.

The co-existence of large-scale production based on collective labour and of small-scale production based on individual activity is not a provisional concession but a long term strategical principle in the period of building socialism. So the progress can be based on the farmers' cooperatives, on the state farms, on the simpler cooperatives of diverse types as well as on the small-scale production attached to the large-scale enterprises or to the rural purchasing and marketing cooperatives at the same time. Also private small-scale production must be allowed in certain fields.

The consolidation of efficient large-scale production is to be continued by creating simultaneously the technical and organizational background of the diverse types of undertaking and of small-scale production.

In course of the past period the public regulation set very serious bounds to the agricultural and cooperative particularities and extraordinarily restricted the independence of the enterprises and the extent at which they assumed risks. The relationships between the state and the cooperatives are to be settled in a way where the Cooperative Act is consequently enforced and all those efforts are stopped which impede the asserting of the cooperative principles.

The meticulous frequently changing and hardly clear-cut interventions should be eliminated first of all in the financial regulation. Here the requirement that the state should not dispose of the financial assets of the cooperatives as the proprietor must be regarded as an ordering principle.

The reduction of the unhealthily vast administrative personnel can be rendered possible also through the decrease of state intervention, the autonomous types of incomes and the propagation of management based upon the undertakings.

Agriculture and food industry arrived to a disadvantageous position in the present price system and this cannot fully be attributed to the changes of the world market price relations.

The agricultural price scissor opened broader in Hungary than in the majority of the European countries.

The broader opening of the agricultural price scissor is to be impeded. Neither state support granted for the prices of production means nor the curtailment of the interestedness of industries producing means of production can present the right way for this. Therefore a larger sphere of shifting should be provided for the producers' prices in agriculture and food industry.

The inflexible regulation of the consumers' food prices by the authorities in a broad sphere must be abandoned, except certain products (e.g. the basic dairy products) subsidization should radically be reduced or stopped.

Beginning with 1988 the prices of the industrial means and materials used in agriculture (except the fertilizers) are

grouped to the type of uncontrolled prices. More flexible price types are coming into prominence within the agricultural price system in order to further the concerted shifting of prices. Though the administration of the state purchase prices of the most important agricultural products remains in the hands of the authorities nevertheless only dairy milk is of fixed price. The price of pigs for slaughter is guaranteed by the authorities (deviations from this price can be managed in function of the market relations only upwards). Informative prices are indicated by the authorities in the case of bread making wheat, corn, feed wheat and killing cattle (in function of the market relations the real state purchase prices may deviate from this at a fixed extent both upwards and downwards). The state purchase prices of all other products are uncontrolled. Within this scope protective prices are applied for certain products. The administration of the consumers' food prices by the authorities became also modified. Products representing a significant weight within consumption (pork, rolls, edible oil, normal granulated sugar, milk of 2.8 per cent fat content, etc.) continue to have maximum prices. The sphere of uncontrolled consumers' prices considerably increased at the same time. In order to further a balanced price policy the state may apply diverse means (price consultations, obligation for previous registration, etc.).

Since the agricultural export or its further increase envisaged in the longterm plans cannot be replaced by the export of other producing economic branches therefore agricultural economy must be enabled to produce this increment. This includes also that relationships between domestic producers and markets abroad should become more direct in respect with the exploitation of the shorter or longer business cycles and in the export of products of particular quality satisfying special demands in smaller quantities.

Several methods and organizational arrangements are needed in agricultural foreign trade. Certain products or groups of

products can purposefully be exported in a centralized way, in a system similar to the present one also in the future. In the case of the majority of products, however, more flexible and less controlled organization methods are necessary. Certain organization measures were already taken in this respect but we have the radical changes still before us.

The general turnover tax and the personal income tax were introduced this year. We took here the particularities of agricultural production and the burden bearing capacity of small-scale agricultural production into consideration and we are applying simpler solutions which require less control.

In order to let the particularities of food economy assert themselves and to avoid the excessive raising of food prices the producers' and consumers' prices of the agricultural products and basic foodstuffs are of "0" tax rate. (Exceptions are here the non basic products of bakery and confectionery industry, soft drinks and consumers' goods these later being charged also by consumption tax.)

The total income of the citizens (over a value limit of 48 thousand Ft annually) is subjected to taxation. There is a progressive tax rate of several bands. Tax after the income from the main job should be fitted into the earnings. The tax charged on the earnings is withheld by the employer business organization which pays it to the inland revenue office.

The income taxation of the small-scale agricultural production (household and complementary farms, etc.) is realized on the basis of the annual returns from sales originated by agricultural activity (free of tax up to annual 500 thousand Ft returns from sales, the farmer whose returns exceed 2 million Ft are taxed the same way as the business organizations are, while personal income tax should be paid after a fixed part - 10-30 per cent - of the returns from sales over 500 thousand Ft).

The agricultural business organizations pay also land tax and tax on the profit (which represents 50 per cent of the profit)

State subsidies reduced in course of the recent years and the subsidization system of agriculture was also modified in consequence of the changes taken place in the price and taxation systems. In international comparison the financial support of Hungarian agriculture cannot be regarded as a high one. Hungarian agriculture should compete with the also subsidized agriculture of other countries. Neither the subsidization of farms operating under unfavourable conditions and of certain investments (meliorations, irrigation, plantations etc.) by the state can be neglected in the future. Preferential interest seems to be a reasonable type of subsidization by the state.

The development of the banking organization and agricultural crediting should continue. No modern economy is feasible without an operating mechanism of the valuation of the property. In agriculture the valuation of land and its treating as property are also inseparable elements of this.

It is a world wide tendency that agricultural production and the agricultural organizations are increasingly integrated in the national economy and may prosper only within the medium of the general social and economic policy. Also the economic regulation of agriculture should be fitted in the general economic regulation. Agriculture has at the same time such particularities to which great attention should be paid in the future too.