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RENEWAL PROBLEMS OF THE
AGRICULTURAL AND COOPERATIVE POLICIES
IN HUNGARY

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1988

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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

Mrs. Katalin BOTOS

FINANCIAL PROBLEMS OF THE HUNGARIAN AGRICULTURAL POLICY

1. Dichotomy of the target system of agricultural policy

Agricultural policy should serve a double task: the calling into being of an adaptive, entrepreneurial and innovative agriculture on the one hand; assistance rendered to the sustenance of the agricultural population and to the maintenance of the value of landed property on the other.

This all have also financial conditions which can well be formulated. Besides, the two functions cannot be separated from each other.

The contradiction between an efficient production policy and the social and infrastructural characteristics of the agricultural policy are but illusory. It would be a mistake if in the formulation of our agricultural policy we should rely exclusively on the aspects of production policy. The tasks are enormous indeed in this respect. In order to make the agricultural policy entrepreneurial, innovative and adaptive it must be really relieved of the other employment political responsibilities which mean a duty to provide "infrastructure". and were built so far also in the operation of the economic units, of the enterprises. Just the making explicit of the dual character and the clear separation of the two aspects of the agricultural policy offer a possibility for the increase of efficiency but for the formulation of the requirements raised in respect with agricultural policy as a whole at the same time.

These requirements should be very precisely formulated and they form an organic part of the agricultural policy.

When stressing the interrelations between production policy and the social-infrastructural tasks then certain explanation is needed. If we state that the condition system of efficient production should be clearly separated from the other tasks then why do we integrate them still in the agricultural policy? We do this therefore since there is no more reasonable alternative of solution in the sphere of agriculture. In this case the requirements of agricultural policy reasonable should be taken into account by economic policy as a whole.

Two examples:

- The expectable decrease of industrial employment is a lasting tendency in this country. On the other hand, however, the extension of the tertiary sector will - in consequence of our stage of development or more exactly of our "devaluation" - be confronted also with restraints - with the restraints of solvency - in spite of the fact howsoever much the progress of this sector would be desirable! If the case is this then the encouraging of the migration of the agricultural population, the streaming of labour to the market cannot be the task. It would neither be reasonable if this way of earning incomes would be separated from the performance of useful activities; it could have a demoralizing social effect. The incomes may derive from production but differentiated methods are to be applied within this sphere. Producers operating at an optimum efficient enterprise scale should be relieved from the hidden social-political targets (e.g. the bureaucratic prescriptions of the number of personnel) but the operative capacity of the small-scale undertakings, of the individual family farms, of cooperatives of the simpler types should be supported. This support does not mean only social-political assistance but also the serviceable development of the system of financial means and institutions.

- A well known fact is that infrastructure is of a decisive importance also for the industrial production. The most

important means of agricultural production, however, land is more than one of the factors of production. Its condition is at the same time closely interdependent with the agricultural production. The fact that the condition of our soils, forests, waters, of our natural environment has a significance beyond the interests of the sector and production in a closer sense should be expressed also in adequate financial and institutional forms. (The bodies responsible for the protection of environment may call to account with the effects of agricultural production but financial means adequate with the reasonable accomplishment of its tasks should be provided for agriculture.)

In course of elaborating the depository of financial assets for our agricultural policy the fact should be taken into consideration that there are tasks proceeding from the present situation which can be regarded as provisional ones and prospective tasks also. The most important factor "proceeding from the situation" which determines the position of agricultural production for the medium term is the demanded agricultural export. Until agricultural exports cannot be replaced by the exports of other productive branches of economy agriculture should be enabled to produce it. Between 1978 and 1988 the agricultural sector fulfilled its obligations of export and domestic supply under extraordinarily unfavourable conditions. We must admit, however, that these results were achieved at the cost of a considerable consumption of the assets and self-exploitation. The direct and indirect subsidization of the export is of a scale where it is obvious that the increase of the exported quantities at any price is not in the interest of the branch of economy.

2. Development and anomalies of the relationships between the budget and the agricultural branch of economy

Subsidies accorded to agriculture radically decreased between 1975 and 1985; in both the percentage of the net produc-

tion value (from 56.7 to 28.4 per cent) and the absolute value (from 26,122 million Ft to 23,479 million Ft). And what is even more important: this is the development of subsidies and withdrawals. In course of one third of the surveyed 10 years this latter transformed to the negative i.e. withdrawals highly surpassed the subsidies (the index of subsidies per withdrawals amounted to 211 per cent in 1975, and to 59 per cent in 1985). Between 1980 and 1985 direct subsidies remained at an unvaried level while the amount of the indirect subsidies decreased to the half. The price shifting of fertilizers, plant protecting chemicals and small machines "influxed" to the costs of agriculture.

The subsidies re-structurated and instead of the subsidization of development tasks emphasis was transferred to the subsidization of the operative management.

The "surplus withdrawal" from agriculture is confronted with the "surplus subsidization" of food industry since 1986 at least. In agriculture the withdrawals surpass the subsidies since 1982. Between 1979 and 1985 food industry was a net payer-in but became since 1986 a net-subsidized branch. Without this it could not realize any income. The net subsidization of food industry represents 40 per cent of the net withdrawals from agriculture. Already in 1980 the "budgetary content" was of about 120 per cent in the profits of food industry representing 5-6 kinds of normative and 2-3 kinds of non normative subsidies. The subsidy content of food industry's profit continued to grow to 360 per cent for 1986. The determinative part (two thirds) of it fell on the export realizations.

The predominance of export subsidization emerges not only as a consequence of indebtedness in convertible currencies but also because of the fulfilment of obligations in Rouble. It is of a particularly great structure conserving effect since practically no normativity is incorporated in the regulation.

The special literature of the West clearly demonstrates that the international competitiveness of the agricultural eco-

nomies (of agriculture) was transformed everywhere to the competition of the budgets. Therefore realistically the task cannot be set that Hungarian agriculture should hold out in the international competition without any subsidization! But neither its scale and type are indifferent. While in the practice of the West such a price is set as a task which provides suitable rentability within the country (which supplements this way the export returns smaller than this) the Hungarian practice assumed at the same time deliberately the heritage of the past, the low prices namely (in consequence of the low wages).

Though the consumers' prices somewhat increased in the 1980-es nevertheless the "influx" of this fact cannot be experienced in the agricultural producers' prices. And the quality of the price system, the price disparity namely, is determinative for the quality of subsidization. Since the end of the 1970-es the agricultural scissor is vigorously opening.

Therefore the subsidies granted for the agricultural sector can be perceived only in dependence with the producers' prices.

Though the quantitative increase of the subsidies was smaller than the growth of the production value nevertheless its structure became deformed.

Between 1976 and 1986 the total amount of subsidies grew - at current prices - by 35.2 per cent in agriculture and by 123.6 per cent in food industry but in the sphere of small-scale production growth lasted only until 1982 and compared to 1986 it reduced by about 17 per cent after that time until 1986.

In the middle of the 1970-es investment subsidies in agriculture and food industry represented a significant share within all subsidies. Since then they vigorously reduced in respect with both their absolute amount and share. Also the quantity of the investments decreased and in consequence of the reducing scale of subsidization always less and less agricultural enterprises could provide the own sources needed.

The subsidization of the input prices diminished at a similar extent in agriculture and it even ceased to operate in the food industry. The growth rate of the produce prices is smaller in agriculture than the price raising of materials and means used in production and so the cutting down of the subsidies resulted in the increase of costs.

The amount of the operative subsidies grew almost to the threefold which is the consequence partly of the scale and partly of the enlarged sphere of subsidization. The support accorded to farms operating under unfavourable conditions was registered also as operative subsidy and this made in 1976 about 37 per cent and in 1986 already 46 per cent of the operative subsidies in agriculture. Almost half of the farms can be considered as those operating under unfavourable conditions. The amount of subsidies granted for farms of this type grew to the 3.5-fold while the other operative subsidies grew only to the 2.5-fold. 84 per cent of this latter is accorded to cattle husbandry of which 60 per cent represents price supplement for milk and 19 per cent price supplement for cattle for slaughter.

The operative subsidies are mainly of individual and periodical character in the food industry, they are serviceable for the preventing of losses in food industrial enterprises which came provisionally to a difficult economic situation. Subsidies of this type show an increasing trend in food industry.

Until the end of the 1970-es export subsidies decreased in food economy; as a result of the boom of the world market prices and in consequence of the fact that the world market price raising of production means and materials in its effects was not shifted fully to the producers.

At the beginning of the 1980-es the input prices of production vigorously grew while the reduction of the prices in markets abroad started only later and so stagnation could be observed in the subsidization of the exports. The slump of prices in markets abroad after 1983 effected the growth of

the amount of export subsidies but also the increased quantity of the exports took part in this though with a smaller importance. For the middle of the 1980-es half of all subsidies granted for food industry was represented by export subsidization.

The relative reduction of subsidies (compared with the results of production) and the income which can be withdrawn in addition are the "fruits" of the years of restriction which took place at the cost of the exhaustion and decay of assets. The wear and tear of the pool of fixed assets increased while the real value of the possible investments reduced in agriculture. Also the program of meliorations became degraded by the inflation: only four fifths of the provisions included in kind in the program of the years from 1981 to 1985 could be realized.

The accumulation of the hidden deficits of the replacement fund was the result of the fact that the system of amortization left the inflation practically out of consideration. The values of the fixed assets are unrealistic and the creation of own sources is insufficient. These all are not exclusively the particularities of agriculture - the effect of the inflation is generally a re-distribution on the benefit of the budget; and this restriction caused troubles also in other branches of economy through the lagging behind of the technical standard.

At any case the restriction of investments exerted its effects not only in the years of its application but by reducing the sources of amortization (through the reduction of the gross value of the fixed assets) it led to the limitation of the credit assuming capacities and this way it checked also the prospective possibilities for the progress of agriculture. Problems are similar in the food industry. Reproduction on an increasing scale and - in the case of enterprises operating under conditions worse than the average - even simple reproduction is impossible without subsidies. The result is an un-

healthily great bureaucratic and not market dependence of the branch of economy.

In addition to the subsidies also the short term character of the financing of the agricultural branch of economy increased and the enterprises became more vulnerable from the aspect of liquidity (the ratio e.g. of the agricultural production credits and the short term deposits grew at the beginning of the 1980-es to the twofold of the former years). This is also a factor which impedes prospective considerations in a branch of economy where several results of the economic management appear but at the long term.

3. Considerations about the future:
possibilities to ease the troubles

The financial situation of the agricultural sector is to be stabilized and first of all the system of its budgetary relations should be revised. This means mainly the re-consideration of subsidization policy.

The task is to reduce the scale of subsidization and to care for adaptation to the market effects. Practically the global reduction of the scale of subsidization - taking the former intensity of withdrawals and the pressure to export into account - is not at all or only at a small extent possible. In fact the only idea which can come up is that burdens of financing should not be fully shifted to the central budget but spread out also on other sectors of society and economy. This would mean on the one hand the building of the subsidies into the prices, their "pricing", and on the other hand the assuming of greater burdens by the monetary sphere (preferential credit conditions).

a/ The possible new types of development subsidization

If it is true that more efficient production can be achieved by means of certain structural changes and technological development then reasonably preference should be provided for the

subsidization of development. In this respect the conception of the development contribution having a basic allocation character as a supplementary resource was formulated.

Regarding its nature the basic allocation - particularly if it is related with output requirements and with the obligation of paying a rent - is like the case when the state would become the "share-holder" of the agricultural enterprises, "partner" in the business... This way the favour granted would be that the supplied capital

- would be available at all and even for a concrete development task,
- eventually the obligation of rent paying would be smaller than the divident is in other sphres of the national economy.

The final allocation of capital would be, namely, certainly more advantageous - since there is no obligation for amortization and paying of interest - at normal conditions for a medium term than the credit is.

Instead of the basic allocation, however, the institutional providing of normal opportunities for the acquisition of capital through tax allowances which accompany the investments seems to be more reasonable for the longer term.

The development of the diverse types of societies, the transformation of food industrial enterprises to joint stock companies, the issue of bonds and the development of the agricultural banking system, the creation of investing societies would represent the lasting opportunity for acquiring capital and with a long term expiration. Practically two items would burden the budget of the state:

- to provide fixed capital for the investing societies or for the insurance companies transformed to property managing trustees (non recurring expenditure of the budget related with the budgetary reform) and
- to grant tax-allowances connected with tasks whose subsidization is intended (continuous but significantly smaller expenditure).

The setting and declaring of suitable development tasks is obviously the duty of the agricultural government and this should remain so until the development of the financial institution system does not belong to the sphere of authority of the agricultural policy.

And yet we cannot elude the formulation of our expectances concerning the whole mechanism and system of institutions since we may raise perspectival requirements with regard to the agricultural branch of economy in two respects (that it should achieve great results in production and in the export with smaller subsidization) only this way.

b/ The future of the export subsidies

Another perspectival problem of the subsidization policy is the subsidization of the exports. At present this is mostly the problem of food industry since a great part of the agricultural raw produce is realized by food industry through the foreign trading enterprises. The extension of the foreign trading rights offers a theoretical possibility also for the agricultural enterprises to get closer to the markets abroad. In order to make use of this opportunity it would be reasonable that the producer enterprises would create joint marketing firms in the sense of a vertical integration built upwards from below.

The possible way of the subsidization of exports would be the "green rate of exchange" first of all in the turnover under convertible currencies.

We should consider at the same time that in course of the 80-es the trend of the agricultural exports shifted very distinctly toward the socialist relations. In consequence of the construction the exports can be by and large exactly contrasted here with the imports. So the "green rate of exchange" in the social relations represents the internal rate of exchange of the construction. It would be a mistake if the budget would distribute the possible withdrawals from import at an other rate than its production costs.

c/ The possible versions of the subsidization of regions situated under unfavourable conditions

Finally the third great problem complex of subsidization policy is the maintaining activities in those regions where the conditions are worse than the average. The conception of the negative land tax seems to be serviceable for the settling of these problems.

The perspectival changing of the channels through which incomes are withdrawn forecast the increasing role of the land tax. It would be feasible and justified that - as a result so to say of re-distribution within agriculture - negative land tax i.e. subsidy should be accorded to those agricultural enterprises which are farming under conditions worse than the average. Whether this subsidy should be attached to production results or merely to the landed property as a potential productive capacity (factor) this will depend on the quantitative demand of agricultural products.

Reasonably this channel of withdrawal and subsidization can be also of environment protective and land resting character always in function of the current situation. It is to mention here that the allocation of environment protective subsidies (inputs) within the scope of the local (decentralized) budgets could be an indirect means of furthering the exports which can be concerted with the practice of the West.

d/ The institutional problems of capital supply in the agricultural sector

When the modern banking system was established in the countries of progressed economy then (frequently after initiatives made by the state aiming at the riding out the agricultural crisis) also banks specialized for agriculture were called into being as a ramification of the manifold specialization. The farm loan credit institutions growing out from the cooperative movement of the individual small-scale producers served as one basis of specialization while mortgage credit

institutes adjusted to the institution of land mortgage served as the other. In several countries also so to say the "own central banks" of the specialized agricultural banking system are operating. It must be stressed here that specialized agricultural banks finance also other branches of economy or offer e.g. credits to the population and on the other hand not specialized banks are also financing the agricultural sphere (in a ratio of about fifty:fifty). In most cases also the commercial banks disposing of a large network of sub-offices in the West European countries established their sub-offices or departments specialized for agriculture.

The former specialized agricultural credit institutes ceased to exist in Hungary when the one bank system was established and (particularly after the reform in compliance with the "ideological basis" that "differentiation according to the economic branches is unnecessary") the specialized agricultural personnel of both the Hungarian National Bank and the Hungarian Investment Bank also gradually regressed in the 1960-es. No commercial bank specialized for food economy was created in course of the reform of the banking system.

The further development of the Hungarian banking system postulates the liquidation of the existing monopolistic situation and the filling of the "functional gaps". The savings' cooperatives whose network covers the country can be developed - parallel with breaking the monopoly of the OTP (National Savings Bank) as the bank of the population - in a way which enables them to the financing of agricultural small-scale production and in part eventually also of the cooperatives.

If the farmers' cooperatives would call into being their own agricultural credit societies (which could be developed perhaps from the savings' cooperatives) then they could release on the one hand the regional monopolies and obtain certain autonomous position within the financial system on the other hand.

The shortage of central sources (including also the sources of credit therein) which can be forecasted also for a longer term lays stress on the importance of the drawing into the production of the population's savings. Realistically this can be expected only in the case if the savings of the population could be mobilized in direct participation and in small societies which can be looked over and controlled by the members. Small-scale agricultural cooperatives seem to be suitable as a type of this kind which are created with the capital-contribution of the members for well defined production tasks (activities). The establishment and activity of the small-scale agricultural cooperatives is not contradictory with the functioning of the farmers' cooperatives. As autonomous small-scale organizations established with the participation of their members' capital they enlarge the material-technical basis of the farmers' cooperatives in the form of independent (contracted) partners and based upon their direct proprietary interestedness efficient collaboration can be expected from them. In the calling into being and financing of the small-scale agricultural cooperatives an important role could be played by the savings' cooperatives which are anyway the depositaries of the savings of the rural population. The opportunity for the participation of the other organizations (commercial banks, small banks) of the banking system should be, of course, maintained for the end that the establishment of any monopolistic position could possibly be impeded. We are at the opinion that the small-scale agricultural cooperatives if called into being as really independent and voluntary undertakings would render possible the introduction of significant sources from the population into agriculture. An essential precondition for this is, however, the providing of far reaching guarantees for their full independence.

Within a longer term (5-10 years) it is thinkable that also new types of joint undertakings and financial organizations will appear among the farmers' cooperatives and the

small-scale cooperatives which will become expectably consolidated in respect with their finances. In addition to the savings' cooperatives also the already mentioned agricultural credit societies could participate in them.

To finish with: also the construction of the legal institutions of land mortgage and mortgage credit seems to be inevitable for the long term. No up-to-date economy can be conceived without a functioning mechanism of property evaluation of which the evaluation and turnover of land as the fundamental means of production represent the absolutely necessary elements in the agricultural sphere. First of all the initial steps should be made toward the turnover and evaluation of land and its presentation in value among the assets of the enterprise.

Gyula VARGA

ALTERNATIVES TO THE GROWTH AND STRUCTURAL TRANSFORMATION
OF THE AGRICULTURAL PRODUCTION

1. The world market outlooks of agricultural production

The almost three decades which passed since 1960 represent the most successful era of Hungarian food economy. Following the general gaining ground of large-scale agriculture the country became relatively rapidly self sufficient in food-stuffs and - calculated on the basis of per inhabitant indexes - soon accomplished one of the greatest agricultural export in the world. In course of the period between 1960 and 1970 the quantity of agricultural production grew by more than 80 per cent. In the most important branches, particularly in cereal and milk production the standard of the yields grew near to that of the most progressed countries. Production growth was most outstanding in the grain and meat verticums.

The growth rate of capacity and production in food industry was smaller than that in industry as a whole and in most cases it lagged also behind the same of agriculture. And still the relative lagging behind was rather quantitative than qualitative.

Under generally good natural conditions favourable for most of the products the increase of agricultural production which is also internationally acknowledged and surpassed the world wide average can be attributed to the rapid rate elimination of our technical backwardness and to the flexible agricultural policy which offered favourable conditions for the farm management.

At the beginning of the decade of the 1980-es a new era started in the Hungarian agricultural production when a successful period of two decades came to its end. The major cha-

racteristics of the new era are:

- prices fell deep below the possible production costs in the world market and protectionism and restrictive measures interwoven by political intentions are ruling over the market, agricultural autarky became generally predominant;
- the former income positions of Hungarian agriculture and food industry significantly worsened and the producers cannot counterbalance this adequately through the improvement of efficiency;
- the dependence of agricultural production on markets abroad grew at a great extent the consequences of which should be treated at an equal rank with the creation of income parity for peasantry and with the demand for undisturbed domestic supply.

The future of Hungarian agricultural production is worthy of consideration first of all from the aspect of these world market outlooks since

- domestic supply should not at all or but slightly increase in quantity and in respect with the structural transformation there are clear tendencies to be followed,
- agricultural exports represent one of the important factors in the equalizing of the foreign trade balance of the national economy,
- a significant part of the agricultural production serves also directly the exports which come to an uncertain position (become unnecessary) if voluntarily or forcibly we abandon the export.

There is no uniform market for the agricultural products and therefore at least four regions or relations are to be distinguished from the aspect of Hungarian exports. They are:

- a/ our traditional capitalist markets in developed countries,
- b/ our traditional socialist markets where the Soviet Union has a determinative role,
- c/ new capitalist markets with progressed economy,
- d/ countries on the way of economic development, the so called third world.

We may summarize the world market outlooks as follows:

- the stagnating or slowly increasing demand of markets abroad exclude the reasonability or necessity of further production development suggested by a quantitative conception;
- the improved adjusting to markets abroad requires structural and regional rearrangements though certainly the Soviet Union will remain our greatest buyer's market perhaps even at a still larger scale;
- realistic chance is offered for a more vigorous participation at the Soviet markets and for a cooperation which requires and makes use of the most progressed agricultural technologies through an organized joining to the Soviet agricultural development program;
- we may reckon with successful advance in the traditional (West European) and recently enlargeable capitalist markets (USA, Japan, Far East) or even with the maintaining of our presence only by means of products being of better quality and larger assortment than at present and of labour based on an up-to-date market policy.

Starting out from the above considerations the future task of food production can be formulated briefly so that by means of more efficient production it should satisfy the domestic demands and those demands of markets abroad which make possible the reasonable utilization of the established agricultural potentials and where the country may obtain an ade-

quate amount of returns in foreign currencies by means of exports at a suitable economicalness. We are at the opinion that under an unvaried structure and in a system where the increase of the exports is connected with import restrictions this task can be implemented not at all or at least not economically.

Therefore we need

- basic material production which grows only slowly in quantity but more vigorously in value, more adjusted to the demands of the population and having a slightly altered structure as well as industrial processing, packing and commerce which is more up-to-date than at present and have a significantly modified structure;
- on the one hand the fulfilment of the international agreements and on the other hand the suitable quantity and the increased economicalness of returns in convertible foreign currencies in the exports.

2. The increase and economicalness of returns from exports

The question of questions is that what is the extent in which returns in foreign currencies are needed by the Hungarian national economy for maintaining the equilibrium of its foreign trade balance and balance of payments and which are the prices at which production for export is still acceptable and profitable? We consider however much this to be the fundamental problem nevertheless the system of economic regulation should not still further its settling.

But if there is no measure of at least acceptable exactness for the comparison of the economicalness of the export of agricultural and industrial products on the one hand and for drawing a limit between the economicalness already unacceptable and that still tolerable on the other then we must confine us to make a guess about the future, possible and desirable progress of the agricultural sector.

We are able already to make - from several aspects - relative sequences within agricultural production and we know also that if a sphere of products would have been neglected whereby the quantity would have been reduced by some 5 or 10 per cent then the rate of economicalness of the exports could have been improved by about 9 or 14 per cent in the starting years of the 1980-es. It must be stressed here that by cancelling the most uneconomical part of the agricultural exports the economicalness of both the agricultural and national exports could have been improved but we do not know how much would have costed the replacement of the returns omitted this way if this replacement would have been partly or fully needed. According to our opinion therefore we cannot be indifferent in respect with the fact that certain quantitative reduction of the agricultural exports offers obvious advantages in respect with the economicalness of exports. This is much more true under the very low world market prices of the year 1986-1987.

The large scale of the food exports - taking the former favourable prices at markets abroad into consideration - was justified also by the foreign currency demand of the country. Under the aggravating conditions of creating an equilibrium of the foreign trade balance this justifiability unvariedly continues to exist. Surpassing its share within the net national production food economy delivers about 20-25 per cent of the exports and therein round one third of the exports under convertible accounting at the expense of small import if compared to the exports. This way food economy contributes to the stability of Hungarian national economy annually with surplus exports of about 50-60 thousand million Ft (including the surplus export of 30 thousand million Ft achieved in the convertible turnover). The agricultural exports do not cover only the produce import of agricultural origin needed for production and for the supply of the population but represent also a source for the raw material and energy imports of the country and for the acquisition of modern production means in markets abroad.

In consequence of the price shiftings which took place in the world market, of the rapid price raising of the domestic means of production (the opening agricultural scissor) and last but not least of the increase of the budgetary returns the income situation of agriculture and food industry was impaired. The demand for the subsidization of the exports also increased and this became general first of all in food industry which performed the exports and the final issue. (About one third of these subsidies was connected with the exports under Rouble accounting and derived from the underestimation of the agricultural prices within the CMEA not being therefore real export subsidization. This is indicated also by the fact that in respect with products imported in exchange the withdrawal from the imports i.e. the counterpart of these budgetary expenses is significant.)

Therefore under conditions like this mainly the revision of the exports under convertible accounting, more exactly their rendering more economical, i.e. their structural transformation is necessary. That namely, that products of the most disadvantageous economicalness should be excluded from the export structure.

It would be a mistake, however, to grant unlimited preference to certain actual product in a way similar to the previous practice or even to suggest its complete neglecting. Our surveys unambiguously demonstrate that not so much one or another branch of activity proves to be outstandingly wrong as considerable sources could be explored through the restriction of the activity of certain circles of deficitary producers within the diverse branches and the sphere of other better products could be increased at an accelerated rate.

3. Some problems in the regrouping of resources

There is a realistic chance for the fulfilment of the above described requirements only in the case if we dispose

of an adequate measure for the assessment of those exports which are unambiguously uneconomical and if we have also a conception about the question: what should happen with the resources released this way, with the land, with the capital and first of all with labour. At present we do not dispose yet of a comprehensive conception like this and we may undertake only a drafted raising of the problems.

a/ Reasonable land use in regions of unfavourable conditions

The reasonable protection of land became fully obscure in Hungary and is mixed with the principle "each foot of ground must be cultivated" (this was supported also by several prescriptions of the authorities). But we are speaking here about two problems which can be clearly distinguished from each other since the protection of the natural environment and that of the land therein does not necessitate in each case its intensive agricultural utilization and if marginal landed property is in question then even the contrary would be desirable. If the intensity of production of unvaried structure would be reduced on arable acreages less suitable for agricultural cultivation and after this production itself would be decreased then this would accelerate the reduction of the costs of crop production as well as that of the national cost level and would induce the improvement of international competitiveness. It is true, however, that on the other side, on the side of production quantity this effect would also assert itself which would be manifested in the reduction of the export commodity funds. This means that the agricultural export would be smaller in quantity but more economical if the reduction of intensity would be implemented in a way accompanied by the improvement of efficiency in the regions of unfavourable natural conditions.

The most favourable and not a bit less realistic version would be if not the intensity of the unvaried structure would

be reduced but the structure itself would be changed. Here the guiding principle could be an increased adjustment to the particular local conditions which would embrace not only the sphere of the diverse activities and the changes of the production technologies applied but also the types of enterprises and the modification of the scopes of organization. The lands released through the restricting of the activities least adjustable to the local conditions could be utilized - in adequate organizational scopes - for the production of other more economical products. In the land use greater flexibility can be expected first of all from agricultural production organized in the scope of the families. Through the improved utilization of human labour - in justified cases - even the increase of the scale of intensity in production and of the sustaining capacity of land can realistically be expected if this is furthered through suitable economic and technical conditions as well as through adequately settled market relations.

There are, of course, also such regions in the country where one cannot realistically reckon with the above described considerations. So if there is no possibility for the suitable arable horticultural utilization of the agricultural acreages then land use as forests or pastures - i.e. in an extensive way - can be the realistic tasks in these regions.

b/ The employment of the agricultural population and the supplementary activities

If agricultural products of a slower increasing or even decreasing quantity are needed in these latter regions then almost obviously they can be produced by fewer people. So within a foreseeable period agriculture will become unable to provide suitable subsistence for a part of the agricultural population. What should be then their future, their fate?

The decreasing agricultural production can - in the unfavourable regions - hardly encourage the development of food industry and therefore sufficiently unambiguously the versions of solving should be looked for in the non agricultural sphere.

If our agricultural policy needs a renewal then the demand for a new conception of industrial policy is manifoldly correct. It is a particular situation which cannot be changed that the modern conception about agriculture can always less and less dispense with an answer to the question: what should be the future of industry operating and progressing within the scope of the agricultural enterprises? The hitherto spontaneous character of this industrial progress was a result also of its "masterless" status which of course was not only disadvantageous. Its more consciously envisaged future corresponds to our interests and should form part of the principles in the development of agriculture.*

The rural industrial jobs can equally be created within the scope of the large- and small-scale industrial and large-scale agricultural enterprises. In the regions of unfavourable conditions - just as anywhere else - the large-scale agricultural enterprises are obliged at present to pay tax burdens of equalizing nature after the industrial activities performed within their scope and this is destined to implement the correction of the preferences included in the financial regulators of the agricultural enterprises in respect with the industrial enterprises, for the end that the creation of industry should not be more attractive "extra industry". I am at the opinion that this should be altered in the regions of unfavourable conditions and opportunity should be offered for the agricultural enterprises working there not to rival the real industry but agriculture operating in the same region - as the only other possible alternative for creating new jobs - as far as their supplementary activities are concerned. So my opinion is that industry which creates new jobs - within the scope of the agricultural enterprises - should be subsidized at least as much as or even more vigorously than agricultural production

*It is worthy of attention that the cooperation of this type between agriculture and industry as well as the utilization in part of labour released from agriculture in the industry and in the tertiary sector is gaining ground also in the countries with progressed economy.

itself is in the regions of unfavourable situation.

c/ The problems of capital allocation

After land and labour capital is the third factor of production about which we are to speak from the aspect of the structural transformation of agricultural production. Desirable would be to find a solution which would have a releasing effect also in respect with the capital resources i.e. which could offer such capital sources which could be deployed elsewhere and utilized more resultfully. But unfortunately the situation is not like this.

No significant resources are engaged by food economy either generally or in the regions of unfavourable conditions particularly and therefore it cannot release such resources. And still there is a chance for savings. Advantage for the national economy can be expected in the case if the capital use will be more efficient in the future at a national scale through structural transformations carried out in the unconomical regions and production units and where this is impossible through their disengagement - partly - out of production.

When pondering the reasonable use of either land, or labour or capital we may draw at any case the conclusion that the regrouping of the resources and particularly their disengagement in production can be successful only if based on well considered principles and tasks and connected with regulating measures which also concretely support them. It is obvious that this all can be carried out only through measures taken by the enterprises but neither certain central guiding and assisting principles can also be dispensed with.

4. The structural development of agricultural production

For the end that the - several times declared - requirements should be fulfilled in this respect the changing of a number of economic and social lines of force is necessary.

Precondition for the real structural changes is that we should surrender the hitherto accustomed principle of the "proportionate" development of all the branches and of the "dynamical" development of almost all the enterprises. Simultaneously with the growth possible in the most competitive branches and in the most resultfully operating enterprises also significant retrocession is needed for the end that progress in the whole could be considerable. We must prepare ourselves also to the idea that the structural regrouping can be implemented only parallel with a differentiation greater than so far and this is as well true for the income ratios between the diverse branches as for the development and remuneration conditions of the enterprises and of the collectives related with them. We must find those social political methods through which the fact does not become irrigating for the diverse groups of society and of the enterprises that the growth of those enterprises which dispose of better conditions and greater resolution for development are growing much over the average. This all could be tolerated neither by the financial policy prevailing so far and the changing of the structure is rather checked and not encouraged at present because of the re-distributing character of the budget.

The practice of the past decades demonstrated that the production political tasks and production development strategies formulated mostly in kind and deduced from the technical relationships do not serve an economical structure of production and particularly not the coming into being of an enterprise behaviour adjusting to the market. In the future therefore we must apply the reverse procedure: we should not find realization markets for the increasing production but we should adjust our production or offer to the demands manifested in the market (mainly abroad). This can be expected only from suitable market and encouragement mechanism, from its plannified establishing and asserting.

It is also obvious at the same time that in a productive

activity linked with so many ties to nature which can be altered only in course of a long period like this the strategical information and influencing of the enterprises and producers as well as assistance rendered to the making of their long term decisions are necessary. Anyhow, we are to draft the envisaged development trends of the determinative elements and branches of production.

The desirable rearrangement of structure cannot and should not be reasoned with the current daily processes but tendencies of a longer term should be considered as footings. Looking over a longer period experience shows that the comparative advantages, the cost savings deriving from the favourable natural conditions could regularly be realized also by our agriculture. So crop production and vegetable oil production represented a not only relatively but also absolutely economical export for the country. Far the greater part of the cultivated lands is utilized through these activities and this is the case on 70 per cent of the arable acreage and on round half of the total agricultural lands.

This situation in the land use will and can be altered neither in the future. Not even in the case if the price reduction of the animal products which took place in the world market reacted at present - provisionally as presumed - also to the grains which means that nowadays even the grain and vegetable oil prices decayed. Our advantage and good position in respect with the production costs of these products can be maintained and the development of the grain and vegetable oil verticums should remain a definite task of agriculture also in the future. I am convinced that the relative deterioration of the domestic income position of grain production - which took place in the recent years - acts against our long term interests. Global preferences accorded to the animal husbandry at the expense of grain production are unambiguously opposite to the efforts aiming at a more economical structure.

Within the sphere of animal husbandry domestic milk production devoted to satisfy the needs of the country which cannot be replaced realistically by something else should be implemented with a minimum land use i.e. with a continually decreasing number of cows and with increasing milk yields. Beef production benefitted with great state subsidies ever so far but lagging most behind the limits of competitiveness should be adjusted to the realistically surveyed conditions (e.g. utilization of grass and by products). So the export of this produce will decrease but this can be released by a more reasonable management of feeds while the arable land (about 200-300 thousand hectares) under other utilization is capable to replace it absolutely and to improve the economicalness at the same time too.

Partly considerations about the economicalness but at least so much our interests related with the quantitative increase of the exports require that the wanton limitations of the import should be stopped as the "most self-evident" but also the most uneconomical practice of saving foreign currencies. The abolishing of the administrative restrictions of the protein import also belongs to these tasks which would not induce at all as great an "earthquake" under the anyway very high import prices developed for 1988 as if it would have been implemented 2-3 years ago. But to let disappear the shortage of machines and parts, of certain chemicals and propagating materials of kernel significance, etc. which is the consequence of import restrictions would be also very important.

In the production of animal products - as a result of our good conditions for grain growing - mainly the future of the pig and poultry breeding activities will be determinative. Unfortunately we must be confronted with serious problems - though at a much smaller extent in the production of killing cattle - in both activities from the aspects of competitiveness and efficiency. The situation is aggravated by the very low world market prices, by the protein shortage and by the

system of quality stimulation which is much weaker than desired. The key problem of efficiency is: how successful will be the selective implementing of regression and growth within one and the same activity. This means, namely, that the most deficitary, lastingly but vegetating enterprises or production units representing a small number of people and a marginal importance only from the aspect of the whole productive activity should be improved or if there is no realistic, rapid and low-cost possibility for this then they should be disengaged.

5. Some development problems of the export structure

However realistic should be, of course, the lasting maintenance of the comparative advantages of certain fundamental agricultural products or the lasting disadvantages of others nevertheless hardly any serviceable strategy of food economy could be built merely upon this basis. Instead of this and instead of an artificially constructed structure based on an in kind basis a market system is needed which should be capable to continuously adjust itself to the changing conditions. When drafting this market system we are starting out from the following facts:

- in order to maintain the relative equilibrium of the balance of payments in the capitalist relations even in spite of the catastrophically reduced world market prices about the present quantity and returns of agricultural exports are needed since for the short run they cannot be replaced with any other product or by any other branch;

- according to the diverse calculations and analyses the agricultural export could be even in its present quantity more economical and mainly more prospective than is at the present if we would change our methods applied in the control of economy.