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To Increase Output, State Socialist Hungary Combines Private with State Enterprises

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The Changing Status of Collectivized and Private Agriculture under Central Planning: *To Increase Output, State Socialist Hungary Combines Private with State Enterprises*

By Z. EDWARD O'RELLEY*

ABSTRACT. Official perceptions of *agriculture's* role in *economic development* in the *Eastern European Soviet-type economies* have undergone significant alterations over the past several decades. These changes have been especially important in *Hungary*, a country well known for its unorthodox economic approaches. The modifications of status analyzed below have been consistent with the overall *economic policy* directives of the Communist party, including the current renewed emphasis on *economic rationality, pragmatism, and the revitalization of the economic reform of 1968.*

I

Agriculture's Changes in Status

THE DEFINED role of agriculture has undergone significant alterations in the Soviet bloc in recent decades. In the traditional or orthodox (*i.e.*, Soviet) model, collectivized agriculture had a central role, while it was planned that private agriculture would disappear. Both in the Soviet Union and in the Eastern European countries that came under Soviet hegemony after World War II, until the early fifties, the agricultural sector had as its primary task the generation of a sizable surplus to support rapid industrial development.

The collective and State farm system, a tool devised by Stalin, aimed to extract the surplus from agriculture. Through this device, the State made the production and marketing decisions so that the individual collective farm members and State farm managers or managing committeemen had virtually no decision-making powers. Of course the State reduced production incentives, resorted to rationing, increased centralization, and used coercion. However, the rate of saving in agriculture *had* increased, and the resources *were* extracted from agriculture.¹

The changing roles of the collective and private sectors can best be studied by analyzing the evolution of Hungarian agricultural organization and policy

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since the fifties. The Hungarians have been in the forefront of innovative approaches in economic affairs within the Soviet bloc and thus their experiences may well illustrate and provide insight into possible prospective developments within the entire bloc. As in other Soviet-type economies, in Hungary, agricultural production takes place on State farms, collective farms or “agricultural producers’ cooperatives,” household plots of collective farm members, and “auxiliary” or private farms. In terms of total agricultural output and land area used, large farms—*i. e.*, State farms and the common portion of collective farms—predominate. The significant long-term changes in policy had their impact primarily on the collectivized sector in the fifties and sixties; the interest in private operations gained prominence and support in the seventies and eighties.

II

Agricultural Collectivization in Hungary

THE COLLECTIVIZATION of Hungarian agriculture took place in two phases. During the first phase (1949–56) the State applied stringent administrative controls and minimal economic inducements. The government repeatedly declared its goal of an increased agricultural output and the *simultaneous* socialist transformation of agriculture, the second usually designated a precondition of the first.² Any failure to make progress on both of these fronts the regime attributed largely to “the kulaks’ acts of sabotage,”³ vagaries of the weather, and only occasionally—and primarily during the New Course—to the lack of necessary inputs, know-how, and incentives for the peasantry, the latter resulting from continuous harassment, high taxes, and compulsory delivery obligations.⁴

When a temporarily free choice was available, the number of collectives and their membership greatly declined. Moderate declines took place in 1953 and 1954, followed by a drastic one in 1956.⁵ The peasants responded to the compulsory deliveries, low prices, and coercion by a slowdown. As a result, real wages in agriculture fell by 18 percent between 1949 and 1952. And if the approximately 4.8 percent deterioration in the average quality of industrial goods is also taken into account, the drop in real wages was even larger.⁶ Production incentives in agriculture were blunted to the extent that many peasants offered their land freely to the government; by 1954 to provide for the full use of such lands became a serious problem.⁷

The second phase of agricultural collectivization began after 1956. During the period 1958–1962, which coincides with the “socialist transformation of Hungarian agriculture,” the administration supplanted its stringent and often oppressive methods of the pre-1956 period with primarily economic incentives.

It entirely eliminated compulsory deliveries; the necessary agricultural produce thereafter was obtainable through free market purchases, often by means of purchase contracts with collective farms and individual peasants. It also provided collective farms with tax credits, special loans, improved seed and fertilizer, and machines and implements at favorable terms.

To enhance its position *vis-à-vis* the individual peasants, the State extended pensions and social security arrangements to collective farmers⁸ and gave increased emphasis and sanction to the private plots of collective farm members.⁹ As a result of these methods, by 1962 95.9 percent of the value of gross agricultural output had originated in the socialist sector (*i.e.*, State farms, collective farms, private plots of collective farm members, and other agricultural enterprises).¹⁰ Thus, with the aid of economic incentives, collectivization was readily accomplished.

III

Economic Reform and the Collective Farm Sector

THE NEW ECONOMIC MECHANISM (NEM), introduced in Hungary in 1968, basically aimed towards a sustained and balanced growth of national income by means of allowing a broader scope to a “guided” market. In agriculture as well as in the other sectors, instead of the former system of administrative control and binding operational instructions, the State would confine itself to methods of indirect control (procurement prices, credits, subsidies), leaving specific production decisions to the producers. In turn, it conceived of such freedom on the part of producers as a necessary condition for the achievement of greater economic efficiency.

Introduction of the basic principles of the NEM into the agricultural sector¹¹ meant a significant alteration in the role and functioning of the existing collective farms. The first noteworthy change came in August 1965 when the State prohibited interference by district councils in the planning process of collective farms. Instead, it required the agricultural cooperatives to prepare their plans on the basis of contractual agreements with state procurement agencies, the only compulsory target remaining the acreage to be sown with bread grains.¹² Concurrently, the government took steps to increase the cooperatives’ bargaining power relative to that of the monopolistic State agencies; according to the law, contracts had to be based upon the principle of equality.¹³ The basic reform blueprint itself, contained in the May 1966 Central Committee resolution,¹⁴ was approved and further expanded by the Ninth Party Congress later that year.¹⁵ During its fall session in 1967 Parliament passed the appropriate laws pertaining

to the agricultural producers' cooperatives and they became effective on January 1, 1968.¹⁶

These new regulations attempted to provide greater production incentives, fuller resource (primarily labor) utilization, and greater competition in the production, processing, and sale of agricultural products. The methods used included the multichannel distribution system, changes in the rules pertaining to the distribution of collective farm income, increased governmental emphasis on household plot and ancillary production activities, and the establishment of interest-group representation for collective farms.

Prior to the reform, income distribution took place in accordance with the

Table 1
THE ROLE OF THE PRIVATE SECTOR IN
HUNGARIAN AGRICULTURAL OUTPUT: 1960-1980

Percent of Gross Output Produced by the Private Sector				
Products	1960	1970	1975	1980
Animal production:	73.1	49.4	48.4	45.1
Cattle	60.5	36.5	36.5	29.4
Hogs	74.2	57.4	55.2	58.3
Horses	n.a.	24.1	27.3	56.0
Sheep	30.5	20.3	18.8	20.6
Poultry	94.8	56.9	50.2	44.5
Other	53.8	69.0	77.1	77.7
Plant productions:	43.9	32.7	25.9	26.3
Vegetables	56.9	43.3	48.5	53.2
Grapes	77.4	59.8	53.9	56.6
Fruits, berries	73.9	56.1	52.9	53.1
Grains, legumes	39.6	24.9	18.5	12.5
Other	n.a.	11.1	6.4	37.5
Total agricultural output	55.9	40.5	35.8	35.2

Sources: Albert Kiss, "A mezogazdasági termelés strukturájának változásai, 1960-1980," *Statisztikai Szemle*, LX (April 1982), p. 345; Ernő Csizmadia, "A háztáji termelés új vonásai," *Valóság*, XXI (February 1978), p. 81.

residual principle: the farm had to meet all its financial obligations toward the State and other claimants before it could pay members. This system led to a mass emigration of able-bodied manpower from agriculture in search of superior alternatives in industry. The average age of collective farm members rose to between 54 and 55 years,¹⁷ with most members of the "weak" collectives being between 60 and 70 years old.¹⁸ At the same time the farms were forced to hire able-bodied employees at the higher, competitive wage, this group also enjoying the superior social benefits already available to industrial workers.¹⁹

Before the reform, some 50 percent of the collective farm membership sat idle during the winter months.²⁰ To increase farm incomes and effect a fuller labor utilization in an economy characterized by a severe labor shortage on the

macro level, the State encouraged farms to expand their ancillary activities. While ancillary activities were not illegal before the reform, the various ministerial enabling decrees interpreted the general law in a markedly restrictive fashion. The NEM ended years of debate concerning the proper scope of the collectives' activity. It encouraged the collectives to broaden their activities (processing, marketing, provision of services), the only proviso being that their main activity had to be agricultural and that nonagricultural production should not affect farm output adversely.

IV

Encouragement of Private Production

THE 1968 REFORM also provided the initial impetus to the expansion of private agricultural production which began in the seventies and intensified in the eighties. Undoubtedly due to the importance of satisfying the population's demand for food and contributing to foreign exchange earnings, the reform reaffirmed the regime's official stand that the maintenance and support of private plots is not a temporary but a long-range principle of agrarian policy.²¹ The reform did not alter the authorized size of household plots (.28-.57 hectares), and it did not change eligibility. Before the reform, only members with independent households qualified; after the reform, every member who fulfilled the minimum work requirement on the common farm became eligible for a private plot. The purchase of small machines for private plot cultivation became somewhat easier but still not satisfactory.

The traditional, uneasy coexistence of private and public farming in socialist agriculture had undergone a basic alteration in Hungary since the late 1960s. Acknowledging the difficulty and expense of expanding certain types of production—vegetable growing, dairying, pork production—on large-scale farms in the socialist sector, the Hungarian government seemed to recognize early the potentialities inherent in small-scale, privately controlled agriculture. The ideological imperatives of stressing the importance of "socialist" forms of production have not vitiated the pragmatic considerations of increasing domestic food supplies and foreign exchange earnings via the output of privately controlled agriculture; private plot production, classified as being in the "socialist" sector, thereby escapes the necessity for invidious comparisons. Since the sixties and early seventies the government has removed many of the restrictions from household plot and private production, and high officials have repeatedly exhorted collective farms to render greater assistance to household production. For instance, between 1965 and 1968 the output of small tools and machines

suitable for small-scale producers tripled,²² while in 1969 the State eliminated the restrictions concerning the number of animals that could be kept on private plots.²³

Today, the most dynamic, important, and familiar subset of the private sector in Hungary is the agricultural output of small, privately owned family farms and garden plots and the private plots of collective farm members. In 1980 such farms accounted for 14 percent of the country's cultivated land, but produced over 35 percent of gross agricultural output²⁴ and 25 percent of the marketed output.²⁵ As shown in Table 1, in some sectors of agriculture private production accounts for well over half of the total output. While the aggregate share of the private sector has declined over the last two decades, the rate of decline has diminished in recent years and has been reversed for numerous products. Private producers supply significant percentages of crop and animal products directly related either to the population's food consumption or to the size of export earnings. They produce 58 percent of fattened pigs, 75 percent of potatoes, 63 percent of green peppers, 57 percent of grapes, 53 percent of fruits and berries, 70 percent of eggs, and 96 percent of slaughtered rabbits.²⁶ In fact, the successes of private agriculture have somewhat embarrassed the Hungarian government; an official was rebuked a few years ago when he observed that the export of slaughtered rabbits yielded the same amount of foreign exchange (\$50 million) as the exports of the entire pharmaceutical industry.²⁷ Today, the authorities seem to recognize the potentials inherent in small-scale agriculture, even though they insist that private operations remain small. The Hungarian government levies agricultural taxes on the basis of *gross* receipts at *progressive* rates. Producers, therefore, cannot afford to increase the scale of their operations beyond a certain point, even though significant economies of scale might result. The population nevertheless appears enthusiastic about participating in food production, including many who have never been "on the farm." Handbooks dealing with fruit, vegetable, grape, and wine production are in strong demand, one being in its twelfth edition after the sale of 500,000 copies (to a population of 10 million).²⁸ The government manifests its support by enabling new forms of cooperation between collective farms and private individuals. Termed as the "Hungarian model" and studied by officials from numerous other Soviet bloc countries,²⁹ it involves the sale of various inputs (seeds, fertilizers, etc.) and the leasing of underutilized tractors, trucks, and even whole poultry operations to private entrepreneurs.³⁰ The private producer increasingly becomes the risk taker—and profit receiver—while the collective farm can streamline its operations. Such current and other probable future examples of governmental pragmatism will likely give a further boost to efficiency and to agricultural output.

What Hungary's successes portend for the other countries in the Soviet orbit depends on numerous factors, *inter alia* the countries' domestic conditions, the international environment, and shifting Soviet attitudes toward experimentation and change. Whatever the nature and direction of future alterations in other countries, obviously the Hungarian approach has numerous strengths that make it worthy of serious study.

Notes

1. Arcadius Kahan, "The Collective Farm System in Russia: Some Aspects of Its Contribution to Soviet Economic Development," in Carl Eicher and Lawrence Witt, eds., *Agriculture in Economic Development* (New York: McGraw-Hill Book Company, 1964), p. 259. The reader is also referred to the following excellent sources: Charles K. Wilber, "The Role of Agriculture in Soviet Economic Development," *Land Economics*, 45 (February, 1969), pp. 87-96 and Alec Nove, "Rural Taxation in the USSR," *Soviet Studies*, 5 (October, 1953), pp. 159-66.
2. Janos Matolcsi, "A mezogazdasag fejlesztésének kettes feladata," *Tarsadalmi Szemle*, 10 (June, 1955), pp. 12-28.
3. *Ibid.*, p. 14.
4. Magyar Dolgozok Partja, Kozponti Vezetoseg, "Resolution of the Central Committee of the Hungarian Working People's Party and the Council of Ministers of the Hungarian People's Republic on the Development of Agricultural Production," *Hungarian Bulletin*, Budapest, 1954.
5. Kozponti Statisztikai Hivatal, *Statisztikai Evkonyv 1959* (Budapest: Kozponti Statisztikai Hivatal, 1960), p. 186; Kozponti Statisztikai Hivatal, *Statisztikai Evkonyv 1967* (Budapest: Kozponti Statisztikai Hivatal, 1968), p. 163.
6. Thad P. Alton and Associates, *Hungarian National Income and Product in 1955* (New York: Columbia Univ. Press, 1963), pp. 10-11.
7. Bela Fazekas, *Mezogazdasagunk a felszabadulas utan* (Budapest: Mezogazdasagi Kiado, 1967), p. 21.
8. *Ibid.*, *passim*.
9. Gyula Varga, "The Household Plot," *The New Hungarian Quarterly*, Vol. 7, No. 23 (Autumn, 1966), p. 14.
10. Kozponti Statisztikai Hivatal, *Mezogazdasagunk a szocialista atszervezes idejen, 1958-1962* (Budapest: Kozponti Statisztikai Hivatal, 1963), p. 5.
11. In the following discussion, "agricultural reform" will pertain mainly to the reforms in the collective farm sector. In 1968 collective farms covered some 80 percent of the total agricultural area.
12. *Keletmagyarország*, August 25, 1965. This requirement was eliminated subsequently.
13. See Janos Keseru, "A gazdasagi mechanizmus reformjanak egyes kerdesei es a termelozovetkezetek," *Kozgazdasagi Szemle*, 13 (October, 1966), pp. 1149-50.
14. *Nepszabadsag*, May 29, 1966.
15. *Ibid.*, December 4, 1966.
16. See *Magyar Kozlony*, October 11, 1967. For enabling decrees by the minister of agriculture and food, see *Magyar Kozlony*, October 24, 1967. The following secondary sources provide an in-depth explanation of the reform in the agricultural sector: Miklos Villanyi, *Penz es bitelgazdalkodas a mezogazdasagban* (Budapest: Kozgazdasagi es Jogi Konyvkiado, 1968); and Laszlo Csete, *Jovedelem koltseg, ar a termelozovetkezetekben* (Budapest: Kozgazdasagi es Jogi Konyvkiado, 1967).

17. *Nepszabadsag*, June 20, 1967.
18. *Ibid.*, July 6, 1967.
19. *Ibid.*, June 20, 1967.
20. *Ibid.*, June 16, 1967.
21. *Ibid.*, September 29, 1967.
22. *Fejer Megyei Hirlap*, October 17, 1968.
23. *Magyar Kozlony*, December 31, 1969.
24. *Magyar Nemzet*, November 28, 1980.
25. *Pest Megyei Hirlap*, December 13, 1981.
26. *Ibid.*
27. Iren Gonda, "Kistermeles, kistermelok," *Valosag*, 22 (December, 1979), p. 71.
28. *Ibid.*, p. 67.
29. *Kisalfold*, January 16, 1982; *Heves Megyei Nepujasag*, May 7, 1982.
30. *Nepszava*, October 24, 1981.

Ending Special Interest Control of Spending

IN ONE OF ITS DEFINITIONS, public finance can be seen as consisting of two systems. One involves the design of a system of public revenues and of the organizations for collecting them. The other is for the design of a system for managing public expenditures and of the organization to make and supervise the involved transactions. The latter, on a realistic basis at least, has long been neglected.

Dr. C. Lowell Harriss, executive director of the Academy of Political Science, has done something about the neglect. He has organized a team of ten specialists in various aspects of public expenditure to study the *Control of Federal Spending* (New York: The Academy, 1985) and their report is now available under that title. Dr. Harriss, the Academy, and the foundations that financed the project (the John M. Olin and the Robert Schalkenbach Foundations) are to be congratulated on the production of a volume of great significance.

Works like these not only provide the basis for expenditure control—the great need of the day if financial catastrophe is to be avoided—but for a science of expenditure, including political science mechanisms to restore public spending to the control of the whole people.

W.L.

"National Liberation"

"NATIONAL LIBERATION," when monopolized by the despotism of the few, suppresses the freedoms of the many.

RAYMOND ARON