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Agrargazdasagi Kutato
Intezet (Research Institute
for Agricultural Economics)
Budapest, Hungary

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The Search for Profits in Socialist Agriculture

Mr Peter Martin
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Wheelock House
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Dear Peter:

The agricultural heartland of Hungary is the Great Plain, stretching from the Danube east to the foothills of the Carpathian Mountains. Debrecen, located on the eastern edge of the Plain, 30 kilometers from the Romanian border and 120 kilometers from the Soviet border, is a city of 200,000 people and is the site of one of Hungary's four agricultural universities. Before coming to Hungary, one of the professors at the University of Debrecen had invited us to visit the University and to look at the agriculture of the region. Our host, Dr. Laszlo Karpati. arranged for us an extensive tour of four large cooperative farms and five private and household farms.

These farms included such diverse activities as dairy, chicken and swine breeding, feed mills, a milk processing plant, a shoe factory, apple orchards, vineyards and poppy fields. Poppy, by the way, is a very profitable crop for Hungarian farmers, not only because of the value of the hulls for drugs and medicines, but also because poppy seed is enormously popular as a food here. The black prarie soils of the Great Plain are especially suitable for field crops. Corn and wheat, along with sugar beets, are important crops in the region. Farms in the Great Plain produce 50 percent of Hungary's wheat and corn, 60 percent of the sugar beets and 83 percent of the rye.

The cooperative farms of the Great Plain tend to be very large, for historical as well as for geographical reasons. Villages are far apart, a result of the depopulation of the countryside under Turkish rule in the 17th century, and the vast expanse of land between villages was easily collectivized

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into very large units. Also, the flat terrain lends itself to large-scale mechanized farming. The cooperative farms I visited ranged in size from 4,000 to 8,000 hectares and employed as many as 1,300 workers. These large farms were typical of the cooperative farms in the region, and visiting them gave me an opportunity to pursue further a special area of interest, the profitability of large-scale agriculture in eastern Europe.

To western minds, profitability seems a natural measure of economic performance. Profits, after all, represent the difference between economic costs and economic results. Alternatively, profits represent the difference between the efforts of the producers and the evaluation of this effort by the users of the product. But, as Alec Nove of the University of Glasgow points out, "The word 'profit' is not always popular in socialist circles." The attitude towards profits in Hungary, however, may be an exception. Ever since Hungary's 1968 economic reforms, profits have been given an increasingly important role in stimulating economic activity. Specifically, managers' and workers' wage bonuses are now more linked to commercial results, that is, to profits.

The reforms decentralized agriculture more than industry. Compulsory delivery quotas were abolished, as were imposed targets for sown area, output, and the number of head of livestock. Farms can now decide, at their own level, what to produce and how and when to sow and harvest. And at least among what's available on the domestic market, they can choose freely which machines, fertilizers and fodder to purchase. Prices of agricultural products are negotiated at levels high enough to make the expansion of output and sales profitable and agricultural managers have been quick to take advantage of new profit opportunities.

As in other parts of Hungary, the cooperatives in the Great Plain region are very interested in profitability. Cooperative managers are nearly always willing to tell you the level of profits of their enterprise, especially if those profits are high. Large size, however, doesn't necessarily mean large profits, often quite the opposite. Overall profits, (net of production costs, but before taxes) of all the large farms I visited in the Great Plain are lower than those of smaller farms visited in Northwestern Hungary. For example, one 6,700 hectare cooperative shows a profit of only 5,522 forints per hectare. This is much less than the profit of 9,541 forints per hectare earned by one of the small cooperatives in the Northwest, which has just 2,800 hectares.

One explanation for the sometimes lower profitability of very large farms is that the large farms in Hungary are usually very diversified and complex operations. The Rakoczi Cooperative in the town of Foldes, 35 kilometers southwest of Debrecen, is a good example. Rakoczi was formed by merging six smaller cooperatives; it now comprises 8,000 hectares and employs 1,300 workers. Grain--corn wheat and barley--predominate on 3,000 hectares of the farm. Sugar beets, green peas, alfalfa, and seed for vegetables form another major part of the field crop operations. In addition, the cooperative mixes its own feed for the 2,500 head of cattle, 8,000 sheep and 2.5 million chickens raised per year. Fruit gardens, an alcohol distillery and a paprika canning factory complete the inventory of activities. Not only are such farms difficult to manage, but in so large and complex an enterprise, it is especially difficult to calculate profitability.

If a profit measure is to be useful in helping a manager make decisions, a profit has to be calculated for each activity, for each branch of production within the cooperative. Only by doing so, can a manager decide whether to invest more in, say, wheat production and less in rye production. Calculating profitability by branch of production is increasingly common among cooperative farms, but it's not necessarily an easy thing to do.

Very large-scale farms usually have to calculate profits for many different branches of production--the Rakoczi Cooperative calculates profits for 19 separate branches. The calculation is relatively easy for green peas that have no on-farm uses and are immediately sold to a cannery. Here profits are calculated simply by taking the difference between the revenues obtained from selling the peas to the cannery and the costs of producing the peas, e.g. the costs of machinery, labor and fertilizer, plus some portion of the farm's overhead costs.

But in the case of milk, produced by dairy cows that are fed a mixture of corn and wheat also produced on the farm, the profit calculation is much more difficult. To complicate matters further, the soil in which the corn and wheat is produced is fertilized with the manure produced by the dairy cows. To figure the profitability of milk production, the manager must assign a value to each of the "intermediate" products required for producing milk, to feed as well as to manure. If that valuation is off, so too is the calculation of the profits from milk production.

Despite the difficulties in figuring realistic levels of profits in the various branches of production, all the cooperatives I talked to agreed that crops are more profitable than animal husbandry. On average, this is true for all large cooperative and state farms in the country. Corn production is nearly three times more profitable than broiler chicken production and is more than twice as profitable as pork production. Sugar beets are even more profitable-- four times more profitable than chickens and three times more profitable than beef production. The Rakoczi Cooperative actually lost money on its broiler chickens last year. While the loss was due mostly to an unexpected drop in the export price of chickens to the Middle East, if production of broiler chickens remains unprofitable, the cooperative will eventually phase out that part of their operations.

Profits are important indicators of the success of Hungary's agricultural cooperatives. But it would be a mistake to conclude that by emphasizing profits, the agricultural cooperatives are operating on the same principles and with the same economic freedoms as in a capitalist economy. In Hungary, substantial restrictions on the use of profits still exist. Profits must be used first for settling losses from previous years and for paying various taxes. The rest of the profit is allocated to certain funds, in amounts regulated by the government-- e.g. to reserve funds, development funds, social and cultural funds, and profit-sharing funds.

Some cooperatives may decide that trying to maximize profits is much more trouble than it's worth because the use of profits is so regulated. As a manager of one of the wine-growing cooperatives in Tokaj put it, "Why should we try to increase our profits, since that only means we'd have to pay more in taxes?" Cooperatives may of course, find ways to circumvent government restrictions on the use of profits, as did one cooperative that had managed to buy 17 personal automobiles although officially, they were allowed only three. But fudging on the rules also takes managerial effort. Possibly more effort than any increase in profits is worth.

Sincerely,

Lana Hall

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