INSTITUTE OF CURRENT WORLD AFFAIRS

LLH-5

Agrargazdasagi Kutato
Intezet (Research Institute
for Agricultural Economics)
Budapest, Hungary
March 31, 1984

Two Cooperative Farms in Northwestern Hungary

Mr. Peter Martin
Institute of Current World Affairs
Wheelock House
4 West Wheelock Street
Hanover, New Hampshire 03755

Dear Peter:

Cooperative farms are a central part of the Hungarian agricultural scene. Together, they produce some 69 percent of Hungary's total agricultural output. This past month, we (Bruce and I) visited two medium-sized cooperatives in the northwestern part of Hungary. Because spring planting had not yet begun, we were able to talk for a long while with some of the coop members, including the coop presidents, and to make an extensive tour of the farms.

A good farm tour is more than a chance to sniff the country air. The Buzakalasz (Spike of Wheat) Cooperative wanted to trade us one Russian Lada automobile plus one fat pig for our Volkswagen. We didn't accept. We didn't get as good an offer at our next visit, to the Egyetertes (Fraternity) Cooperative, but we were invited to a wine-tasting in the cooperative's wine cellar. The cellar is located on land that used to be part of the famous Esterhazy estate, but few traces of nobility presence remain. Instead of manorial splendor, the house above the cellar, which serves as meeting and recreational rooms for the members of the cooperative, is merely pleasant, clean and functional. Still, the cellar offered an impressive array of very good Riesling, Merlot and Muscat wines.

Despite the fact that the two cooperatives are very similar in terms of production and output, the difference in styles of management of their leaders is as marked as is the difference between a hard-headed pig trade and a wine tasting in a well-stocked cellar, a cellar that does nevertheless represent a good, long-term investment. And style of management is important in explaining why some cooperatives perform better than others. Despite reforms to make the economic decisions of

---

Lana Hall is an agricultural economist at Cornell University and a Fellow of the Institute of Current World Affairs. She is studying agricultural performance in eastern Europe.

managers conform more to market forces than to planned directives, production decisions of cooperatives are still circumscribed. For example, wage and salary levels, the use of profits, and the selling price of many agricultural products are all regulated by the State. This means that the style in which the president of a cooperative manages the coop members and their production activities may make more of a difference to the economic success of a cooperative than would any single output or investment decision by that president.

Both the Buzakalasz and Egyetertes Cooperatives appear to be reasonably profitable. On 3,252 hectares, the Buzakalasz Cooperative produces wheat, corn and 15,500 pigs per year. Last year's profits (after wages, but before taxes) totalled 32 million forints (or about U.S.$727,272, at current exchange rates), which with 430 members, meant a profit of 74,418 forints per member. The Egyetertes Cooperative, with 2,830 hectares, also produces enough wheat and corn to supply most of the feed needed for their 14,000 pigs. (Both cooperatives purchase protein, vitamin, and mineral supplements to add to the feed, but try to keep such purchases at a minimum.) The Egyetertes Coop cleared profits totalling 27 million forints last year, but because it has only 252 members, profit per head, at 107,142 forints, was higher than in the Buzakalasz Coop. Thus, the two cooperatives are pretty evenly matched financially, but the president of the Buzakalasz Cooperative, Mihaly Csordas, has had to pull harder to make his coop a success.

Mihaly Csordas has been president of the Buzakalasz Cooperative since 1974. He plans to celebrate the 10th anniversary of his presidency on March 15. We met with him in his comfortably furnished office (comfortable at least in comparison with the furniture you find in the average citizen's home here) in the small town of Mosca. Agricultural cooperatives usually locate their administrative offices in town, some five to 10 kilometers away from the fields, barns and mills of the cooperative, and the Buzakalasz Coop is no exception.

Csordas is not a typical coop president. Three out of four coop presidents are members of the Hungarian Communist Party. Csordas is not only a member, but during the five years before becoming president of the coop, held the important political post of Regional Party Secretary. He told us over lunch that he had come to this cooperative as president because he had been one of the chief organizers of the coop in 1959. Then, when the coop fell on hard times financially, the members of the cooperative went to the Party officials and demanded that those who had persuaded them to put their land in the cooperative come back and help solve its financial problems. This was Csordas' diplomatic version of the story. We later learned that the coop had gone through the Hungarian version of bankruptcy. In these bankruptcy cases, the requests of the coop members don't really determine who will be president; rather, it's a decision of the higher authorities. (This phrase, "higher authorities", is used continually by Hungarians. It probably refers to the Party Councils, but it's difficult to get a clear definition from Hungarians of who "higher authorities" really are.)

His political power base gives Csordas a lot of authority in directing the cooperative. There's no doubt he's a strong president. Theoretically, the bookkeeper, the chief agronomist, and the farm branch managers jointly decide how to utilize the after-tax profits of the coop. But when asked who actually makes the decisions on what new investments to make and how to distribute wage bonuses, Csordas makes it clear the he has the first and last word. His style of management does however meet with approval from the coop members, because coop presidents are subject to re-election every five years. By pulling the coop from bankruptcy to efficiency and profitability -- in terms of overall efficiency, the coop now ranks 25th among the 1,302 coops in the nation -- Csordas has become valued for his economic leadership as well as for his political strengths.

Csordas says it was mainly through hard work that the coop was made profitable, but it's clear that he also made great efforts to improve the technical skills of the coop workers. Ten years ago, the coop had only 20 specialized workers with training in a specific line of farm work; now there are 180. The coop considers education and technical training costs to be costs of production. Many of the workers come from cities, without previous experience in farm work and the coop often pays for their education and for further technical training at a nearby agricultural school.

There is indeed little bias against city-bred workers. In fact, the coop prefers workers with technical training, even if it is from a city school, over workers with peasant backgrounds. Of course, as a result of collectivization and the formation of the cooperatives some 25 years ago, there are very few young workers with peasant backgrounds. But also, the coop managers prefer workers without previous farm experience because they can be more easily taught new farming techniques without having old and out-of-date practices interfering in their learning.

Teaching new workers how to handle pigs is only part of the cost a coop incurs when hiring city-bred workers. Because most workers continue to live in town, the coop must provide certain amenities for these workers, like areas to change clothes and wash off the smell of the pig barns before going back to town. At least, the president of the Egyetertes Coop, Endre Dukony, seemed to think this was important for his coop members. He says the coop hasn't been getting the best workers from the town because working in the pig barns is hard work and smells bad. Providing a place for workers to clean up seems to him to be the least the coop can do.

Endre Dukony's style of management does contrast with the colorful, political style of Mihaly Csordas. Where Csordas enjoys managing people and concentrates on human investments, i.e. on training and educating workers, Dukony emphasizes the importance of physical investments, new buildings, new machinery, and creating new and profitable farming activities within the cooperative. Dukony began his membership in the cooperative as an animal husbandry technician, with a secondary school degree. He became chief of the pig-breeding division, decided to obtain some management training, then was elected president by the coop members in 1977. The coop was in good financial shape when he became president and under his direction, profits have steadily increased.

One of his major achievements was the development of the cooperative's highly profitable fodder mixing operation. This facility, made from all Hungarian machinery, which the coop is very proud of, can mix 17,000 tons of wheat, corn and supplements per year. The coop sells the mixed feed directly to other cooperatives in the region for pig and poultry feed and clears from seven to eight million forints in profits per year from these sales. Having the feed mixing plant means that the coop can vary its marketing strategy for the corn and wheat it produces on the farm. For example, when the price of bread wheat is high, the coop can sell its own high quality wheat for bread, then buy some poorer quality wheat at a lower price to use for fodder mixing.

Persuading the coop members to use their profits for such capital investment wasn't easy. It meant they had to forego building social centers and housing and most importantly, had to give up using some of the profits for surplus wage payments. Last year for example, after paying production expenses, standard wages, and income taxes, the Egyetertes Coop had 17 million forints of profit left. Out of this 17 million, 10 million was used for savings and investment and another 3.5 million was kept in a so-called "safety" fund. The members voted that the rest of the profit, 3.5 million forints, be used for surplus wage payments to themselves.

The members of the coop could have voted an even higher wage surplus, but this would have meant a substantial reduction in the investment fund. As Dukony said, it would have meant "eating tomorrow today". By persuading his coop members seven years ago to invest in a feed mixing operation instead of voting higher wage surpluses, Dukony has helped ensure that today his coop has both higher profits and a higher available wage surplus.

The State is now implementing new systems of management compensation for presidents that will give even greater incentives to search out new and profitable activities for their cooperatives. Presently, Dukony's salary is around 12,000 forints per month (or, at present dollar exchange rates, about $272). With a surplus wage payment, plus an additional premium (of up to 20% of salary) for fulfilling or exceeding production plans, Dukony's salary may reach 15,000 forints per month.

The new incentive plan is based on profitability of the cooperative. Under this plan, salaries of coop presidents will increase progressively as profit per member increases. For example, if yearly profit per member in the Egyetertes Cooperative remains high at 90 - 100,000 forints, Dukony's salary will increase to around 20,000 forints per month. Thus there's a clear incentive for him to keep profits high through sound planning and investments.

Monetary rewards for managers and for workers are important for the continuing success of Hungary's agriculture. The political leadership recognized this with the economic reforms of 1968 and subsequent years. Those reforms made it much easier for coop members to produce pigs, poultry, vegetables and fruit on their own household plots and to sell their produce either to their cooperative or on the private market. As a consequence, Hungary's agriculture has been one of the most successful in the socialist bloc.

But agricultural cooperative presidents say this isn't enough. They argue that to get the coop members to put in as much effort working for the coop as they put in working on their own household plots, coop wages must be increased. Presently, wages are regulated by law and are set low. In the Egyetertes Cooperative, for example, wages range from a mere 3,500 forints ($80) to 8,500 forints ($193) per month. Only if wages are increased, can agricultural production from the cooperatives be expected to increase.

This presents a dilemma for the leaders of Hungary's continuing economic reforms. Hungary has been sharply criticized by her socialist neighbors for the economic reforms, specifically for becoming too capitalist. If wages and the monetary incentives to labor are freed from state regulation, Hungary becomes even more vulnerable to charges of capitalism. Currently new economic reforms are under consideration. The direction and extent of the new reforms is to be announced at the end of April. It may be that wages for certain enterprises, such as agricultural cooperatives, will be allowed to move more freely. But many Hungarians feel that the reforms are going to be too watered down to do much good.

Sincerely,

Lana Hall

Lana Hall

Received in Hanover 4/9/84