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CZECHOSLOVAKIA
16 April 1966

THE NEW CZECHOSLOVAK AGRICULTURAL MODEL

Summary: The planned reforms of the countryside replace the former directive methods of agricultural procurement with a new principle: the maximization of gross income. Collectives will have greater latitude to plan their production structure and greater influence on the sale of their production. The maximization of gross income is designed to act as an incentive, but the incentive is rather for increased investment than for higher wages. The proposals specifically state that wages will remain stable for the first years of the new system, and the tax structure is constructed in such a manner as to induce the flow of funds away from wage payments into capital construction.

It is planned to establish representative councils of collective farmers attached to district management organs; however collectives will not be completely free to elect their representatives. They must first be ratified by District National Committees.

The laws regarding private plots and private farmers will not be altered in any important way. The government wishes to restrict both forms of private ownership to a minimum.

The administrative hierarchy of agricultural control does not appear to have been simplified. In fact, the proposals suggest the creation of new authorities, responsible to the Ministry of Agriculture, dealing with investment, technological, and cadre questions.

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The following discussion of the projected reorganization of the agricultural system is based upon three basic documents dealing with the proposed measures: 1) Central Committee secretary Lubomir Strougal's article in the February 2 issue of Rude Pravo; 2) the Ministry of Agriculture proposals submitted to the CC CPCs and published in excerpted form in Socialistické Zemedelstvi No.8/1966; 3) and the Resolution approved by the March 22-23 Plenum of the Central Committee, published in Rude Pravo on March 24.

The Central Committee Resolution states that during the course of 1966 it anticipates that the measures will be fully worked out in order that "it will be possible to realize the perfected system of planning of the management of agriculture from 1 January 1967, as a whole." (emphasis supplied)

Ideology

Strougal admitted, in effect, that the motive for the collectivization of agriculture was political by its nature, i.e., the so-called "indivisible transformation of the countryside." The reason, then, for the establishment of the new set-up lies simply in the fact that the directive system of management could not supply increases in either yield or harvest, that the general production level was not advanced beyond the index achieved already before the war. Thus the resurrection of agriculture as a significant economic sector implies a change in ideological priorities, forced upon the regime by the dwindling per capita output, the failure of the directive system to provide for the investment requirements of each agricultural unit, and the ensuing flight from the countryside to the urban areas.

What remains unchanged, according to the CC resolution and ministerial proposals, is the assumption that in the long term the character of agriculture and industry should be united, that the concentration of productive resources in the countryside will gradually bring industry and agriculture closer to their nature. For this reason and for reasons which will be explained below, the regime has set about stimulating the creation of capital funds within the individual farming unit. The key then to the reform measures might therefore be described as a shift of the investment burden from the central budget to the enterprise. The principle upon which the reforms are ostensibly based, namely the maximization of gross income, represents an incentive to increase the funds for mechanization and construction rather than for wages payments. The tax structure is arranged in such a way to shift resources from wages to investment. In a parallel manner, the levies on taxes are progressive, such that the profits of the most successful enterprises will be fed into the farming units operating at a loss.

With these qualifications in mind, is one able to evaluate the impact and importance of the reform for improving conditions in the countryside.

Planning

It is clear that the long term plan for the development of agriculture and its coordination with industry belong to the center. The Five-Year Plan is the quantification of the long term perspectives. In consultation with the district supervisory organs -- the Agricultural Production Administrations and District National Committees -- the enterprise compiles its own five-year plan.

The District organs compile their own provincial medium term plans on the basis of orientation indices from the center, and the enterprises are obliged to follow a procedure of coordinating their own plans with the district organs. In the last analysis, the Ministry of Agriculture ratifies the numerous five-year projects, with the power to alter District plans as it sees fit by directive.

In principle, the enterprise exercises the power to work out its yearly plan without restriction. Enterprise contract obligations operate on a yearly basis as well, and fulfillment of the plan is measured by fulfillment of contract obligations with procurement and service organizations. The agricultural proposals emanating from the Ministry of Agriculture, differ from Strougal and the Central Committee resolution in the manner of rectifying enterprise plan deviations. For instance, if the enterprise one-year plan does not agree with plans approved by higher organs, the ministerial project presumes that correction will be exercised by direction. The other two sources speak of the employment of indirect economic instruments -- taxes, prices, etc. -- as corrective devices. On the other hand, if the requirements of the center change, the changes will be transmitted administratively through the state apparatus to the enterprise. On this point all sources agree.

One might object that the application of economic instruments to individual enterprises is no different than correction by directive. To prevent discrimination, economic instruments should be employed to encourage or discourage a given quantity of production within a state or regional wide area.

It does not appear that the planning procedure has in fact been simplified. One would rather call it a redistribution of responsibility. The Ministry of Agriculture retains the commanding position with regard to the ratification and harmonization of plans which derive from its subordinate bodies. The enterprise may have perhaps won some flexibility in choosing its own best specialization potential, but this choice is restricted by regulations determined from above.

Collectives have what is described as a "concrete choice" of its own production structure.(1) Strougal anticipates a policy of specialization, territorially oriented according to natural conditions. Yet, variations in non-natural conditions, such as labor, transport, and equipment, might be equally if not more important than natural conditions. The regime has not reached the point where it may permit the individual enterprise to decide freely the structure of its own specialization.

As a model for comparison, the reforms of Hungarian agriculture allow the collective to grow what it judges to be most profitable, with the exception that cereal grain quotas are centrally planned. On

(1) "Excerpts from the Project on the Principles of the Perfected System of Planning Management of Agriculture," Ministry of Agriculture, published in Socialisticke Zemedelstvi, No.8/1966.

balance, the agricultural unit in Hungary has greater latitude because it is already apparent in Czechoslovakia that central authorities have determined the gross requirements of most plant and animal production. Moreover, specialization is restricted by a system of zoning -- namely, what crops may be planted where.

Economic Instruments

The various contributions to re-construction of the countryside stress that the first obligation of the enterprise is the maximization of gross income. To this end the directive procurement of agricultural products will be replaced by the establishment of indirect economic instruments, which the regime is fond of calling "money-commodity relationships." The procurement prices are meant to be the most important device for stimulating production. These are unitary prices, applicable to all sectors of the agricultural establishment, though it is not excluded that in the transition, state farms will be favorably treated with higher prices. The great body of prices will be fixed centrally, to cover production costs and long term market developments. It was originally thought from a reading of Strougal that unitary prices would not be based on the "average cost notion," reflecting average expenses of all enterprises producing a given product, rather a system of prices based on "relatively worst conditions." It appears that Strougal's suggestion has been abandoned in favor of the current system of price formation, which acts to the detriment of poorer enterprises producing at higher than average cost.

When the Hungarian government introduced its agricultural reforms in August 1965, it announced an increase in procurement prices to give an initial impetus to the reforms. One must assume that Czechoslovakia intends to do the same thing, as the emphasis on the procurement prices would imply. However, the Central Committee resolution on agriculture has been passed, but the government has apparently not yet agreed on the percentage increase, nor has it yet decided which crops it will encourage. On the evidence, it is fair to assume that prices will be raised; the magnitude of the increase and its extent are still unknown.

Price premiums will be added to basic procurement prices to cover short term fluctuations in demand, covered by the resources of the procurement agencies, not from the central coffers. They also have the power to reduce purchase prices in the case that demand is largely satisfied. Differential price increments will be accorded to farming units operating in poorer natural conditions, paid on the basis of 100 Kcs. of marketable production.

Since prices premiums, varying according to demand, are determined and financed by the procurement monopolies, it may easily be a temptation for those bodies to avoid as much as possible a rise in prices. One must hope that there will be centrally enforced rules regulating the paying out of premiums, for the procurement organs may only reluctantly raise prices though quickly lower them in order to ensure their own maximization of gross income. Procurement agencies

might also simply refuse to buy produce which they are unable to sell at a given price in order to maintain the price level. The collective might counter this application of monopoly power by contracting with other collectives for the sale of their products at relatively free prices or on a barter basis. These complications could of course, be avoided by the elimination of powerful procurement agencies and the tying of the collective directly to the market.

In addition to subventions which take the form of differential prices, there are other more direct subsidies called "bonuses," for that group of enterprises which cannot otherwise maintain itself under the new conditions. This subsidy will also be distributed on the basis of 100 Kcs. of marketable production for a temporary period. "Bonuses" and other stabilization subventions must be approved by the district management organs and financed from their resources.

The tax structure contains two elements: land tax and income tax. The institution of a land tax places a value on land resources and thereby makes it a part of production as well as social costs. It is in fact a form of economic rent which will become another important factor in the determination of profitability. The land tax will stimulate the utilization of land, presently lying fallow. In addition, the tax will act as a device which equalizes costs of farming units producing on rich lands with those operating in poorer natural conditions. This tax will be centrally established for a relatively long period.

The income tax represents a ratio of gross income to the number of permanent workers, and the scale will be arranged in such a manner that the greater the size of gross income, the higher the percentage of taxable income. In the cooperative sector, the numerator of this ratio (namely, gross income) is merely the growth of gross income. Obviously, the state farms are paying taxes upon a smaller volume of income and therefore are paying a proportionally smaller percentage of their revenue in taxes.

This method of assessing rates constitutes a continuation of discrimination against the cooperative sector. But perhaps even more significantly, it works counter to the positive aims of increasing the importance of incentives. Since the state sector pays taxes only on the volume of gross income growth, collectives will certainly find that the incentive to maximize income will be diminished. Moreover, taxation, assessed on the basis of unit of labor input decreases the incentive to increase productivity. The object of progressive taxation is most certainly to subsidize the inefficient and poorer collectives; however, weaning the farmer thereby to the principle of gross income maximization cannot be facilitated.

One has to make a further qualification in discussing the

agricultural tax structure. The numerator of the tax ratio, previously referred to simply as gross income, is not actually the total sum of gross income but is described as "adjusted gross income." Adjusted gross income is defined as the "consumption fund," i.e., the wage fund. If the basis for determining taxes is represented by the sum of wage payments, then it is in the interest of the collective to limit the size of the wage fund to avoid paying the taxes upon it. Presumably, monies which might otherwise go to the farmer in the form of increased remuneration for higher output will find their way into the various investment funds. Another personal incentive to the individual worker is thus neutralized. It is obvious that the so-called incentive system, the tying of the worker to the results of the collective is another appeal to the farmer's social conscience not to his personal welfare.

It can be added to the list of incumbrances on incentives the limit of income derived from over-plan fulfillment which can be used for wages. In the long run, when the regime feels that enterprises have been sufficiently modernized, there may be a change in the tax set-up to permit increased productivity to play a greater role in raising collective farm wages. In the near future it will not.

By way of contrast, the Hungarian incentive system attempts to place a greater proportion of gross income in the hands of the worker. While the Czechoslovak system induces the flow of funds to investment accumulation, the Hungarian measures channel higher revenue into wage payments, as a substitute for under-mechanization of the countryside. The two systems derive from different principles -- the Czechoslovak: that increased production will result from intensification of capital resources; the Hungarian: that personal incentives achieve quicker production increases and later accumulation can be transferred to investment

With regard to credit and its availability, both agricultural sectors will be treated equally and will be subjected to identical conditions. The state bank will offer short term operating loans in addition to long term investment credit. The credit policy of the bank will aim at stimulating the enterprise to mobilize its won reserves. The bank will have no "systematic control" over the use of the enterprise's internal capital funds.

Wage Payments and Income Distribution

The proposals of the Ministry of Agriculture state: "In the spirit of the 6th Congress of the JZD's, the power of the enterprise to decide and allocate gross income will be strengthened, especially with regard to the most suitable proportions between accumulation and consumption." (p.30) This increased flexibility in the distribution of income is circumscribed by rules from the ministry detailing the conditions by which the collective is empowered to increase the size of the wage fund. As in industry, it has been made clear that no "spontaneous" rise in remuneration will be tolerated by the central organs. The enterprise must adhere to certain terms of stability which have to be achieved before wages can be justifiably increased. Investment and housing construction funds have priority upon gross income, and as stated above, the tax structure is such that allocation to the investment funds is encouraged. The Reserve Fund, the reservoir guaranteeing minimum wages, will also be strengthened to relieve the state and supra-enterprise authorities of the burden of subsidizing cooperatives in times of poor production. Only in extraordinary circumstances will the Agricultural Production Administrations grant credits from their own resources to guarantee minimum wages. The ministerial project states clearly that in the first years of the reform the farmer cannot expect any basic wage increments. The wage fund will remain relatively stable until investment outlays have achieved greater mechanization and construction.

Transition from the work unit system of remuneration to a straight monetary system will be achieved gradually. Incentive bonuses will be distributed for the overfulfillment of planned production, and much of this allocation will be discretionary upon the decision of the enterprise manager or his branch subordinate. The Central Committee resolution delegates large arbitrary power to the cooperative chairman for the creation of personal incentive funds, distributed at his discretion for greater and better quality production. The resolution says nothing of the role played in this connection by the collective assembly. This incentive system is of its nature a kind of foreman's fund, currently employed in the industrial sector and of its nature is susceptible to the same kinds of abuses. Apart from the danger of simple dependency upon an individual with greater power, the worker will not directly share in the increased production or productivity of his enterprise.

The JZD will administer the private plot fund of land according to the laws already in force, the objective being to satisfy the needs of the farmer without at all extending the present system.

Contractual System

The creators of the present reform are aware of the inferior bargaining position of the enterprise in dealing with the state procurement and service monopolies. Although, according to the reform, the enterprise now has a free choice in entering into

a contract with a procurement agent, the power of the monopoly, of its very nature, continue to restrict enterprise independence. The regime hopes to circumvent this inequality through fixing the prices for procurement and services. These prices will be uniform throughout the agricultural sector, regardless of the type of ownership. The enterprise will contract on a yearly basis, and long-term contracts will relate only to those branches where the production cycle involves a period of time longer than one year.

The contracts provide for fines for equipment or service that is of poor quality. One important new feature of the contract procedure pertains to responsibility for the transportation of goods. Formerly, the collective was made to provide, out of its own purse, for the transportation costs throughout the republic. Procurement bodies will henceforth be responsible for the supply of transportation.

The enterprise will apparently be free to contract with other collectives for the exchange of products without the central organs as intermediaries, and the prices for this trade will fluctuate relatively freely.

Even acknowledging that the regime is conscious of the inherent bargaining inequality of enterprise and purchasing agency, the danger remains that the contractual system may perpetuate the directive form in a new guise, rather than ensuring collective independence and flexibility. To have real independence the collective should be able to contract for any commodity it wishes to produce after assessing its own best specialization potential and be able to obtain resources without any strings attached. If profitability is to be any stimulus for the cooperative, the contract must allow the possibility of changing the structure of production at the termination of the contract period. Without a relatively free contracting procedure the system of indirect central controls becomes a sham. This kind of extensive independence is not reflected in the reforms, prescribing as it does particular zones of specialization and permitting the procurement agents the power to control prices in part by the addition or subtraction of price premiums.

It is interesting to compare the Hungarian system once again with the Czechoslovak. The collective in Hungary is specifically permitted to circumvent the procurement agencies in the sale of its products. It may deal on the market or sell to other agricultural units. Since the collective in Czechoslovakia must fulfill its contract obligations with the procurement agencies in order to demonstrate its fulfillment of the plan, the possibilities of avoiding procurement organs are obviously restricted. Control over the activities of procurement agencies is thus to be effected by a system of higher administrative control.

Administration

The contract system could gain a measure of equality with either the break-up of the purchasing monopolies into specific product purchasing organs or with the creation of a Union of

Collectives. However, the regime has definitely discouraged a union of this sort; it is undoubtedly aware of the dangers of creating a strong and coordinated interest group which could countervail the authority of the state in the countryside. In lieu of this establishment, the government will initiate an elected cooperative council attached to the Agricultural Production Administrations, acting as an advisory body. Having said nothing to the contrary, one assumed after reading Strougal that these councils would be freely elected by the collectives. The proposals of the Ministry of Agriculture, as well as the CC resolution, clarify this issue to the detriment of the collectives' interests. The collective representatives, after their election, will be ratified by the District National Committees, which apparently will have the power to veto any unworthy representatives. There is some discrepancy between the stipulations of the ministry and the Central Committee. In the former, the representatives are to consist of leading provincial farm chairmen; in the latter no such condition is made, their composition not being restricted to leading cadres. Obviously, the dependence of farm chairmen on the beneficence of Party organs will be much greater than of a popular representative freely elected.

Moreover, the councils will not sit in permanent session; they will not have a hand in the daily management of the APA. They will be elected for a period of two to four years to district conferences whose convention is not specified by the documents. Probably they will be asked to review the long term tasks of district organs, and their voice in matters of particular interest will be thereby diminished.

In a sense the administration of the countryside as a whole has not been simplified but rather nationalized. The APA's are charged with acting as branch managers (obory) with delegated power from the Ministry of Agriculture in the districts. The branch management of the Slovak regions is entrusted to the Slovak National Council. Thus, it is apparent that from the outset the government envisages the redistribution of responsibility rather than clear autonomy for the Slovak National Council.

The bureaucratic structure has been complicated in some ways by the system of planning and "ratification." The APA's are responsible to the District National Committees for their plans and the plans of the enterprises in their charge. The District Committees are in turn responsible to the Regional Committees. The Ministry retains control of technical development, long term investment, and cadre policy. Under a genuine system of indirect controls and production unit independence where the collective has the right to choose between alternatives, under given general conditions, the APA would be superfluous. What is needed are territorial centers distributing the latest scientific and other types of information. In fact, the proposals intend to complicate the system further by the establishment of new organs, responsible to the ministry, for just the very purpose of stimulating technical development and specialization. The new vertical organs will undertake investment allocation, the administration of cadre policy, and services within the territorial unit. From all indication, they

will act parallel to the older district committees and APA's and duplicate some of their functions. The multiplication of bureaucratic organs for provincial administration can hardly diminish the degree of control over agriculture,

Private Sector

The only document dealing with the private farmer is the proposal of the agricultural ministry. In certain aspects of the reform, the private sector will be treated on an equal basis with the collectivized sector. Procurement prices will be unitary; tax rates and subsidization "bonuses" will account for variations in natural conditions. Private farmers will also have some limited room to contract with purchasing agencies on equal terms, though apparently not with other farming units.

However, production produced on private farms will only be partly distributed on a contractual basis. Partly their obligations will be decided by plan indices emanating from the relevant national committee. The national committee will probably act as procurement organ. The issue is somewhat confused by the terminology of the ministerial document, for it states that purchase organs will procure on the basis of an "agreement" over the assortment of products; the word "contract" is not used.

Some attempts were made in Northern Bohemian districts to permit the owners of private holdings to produce what they wished, restricted only by planned gross value. These experiments have apparently been abandoned as it is stipulated that private farmers will produce according to an "agreed" production assortment. The regime appears to believe that it is premature to attempt collectivization of these holdings at present. However, it does not relinquish the long-term objective of uncovering a device which would extend socialist ownership into areas hitherto unamenable to this form of production.

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In sum, it does appear that central interference in the countryside has ceased, or that farming enterprise independence has been substantially broadened. If indirect economic instruments can be applied to individual farming units, directive control has only been reproduced in a new form. The incentive system does not permit the collective to distribute its own revenue with any flexibility; it rather restricts distribution to the investment funds. Wages will not rise materially even if productivity is increased. And the governing bureaucracy seems to be multiplying instead of diminishing. Thus the essence of Czechoslovakia's agricultural difficulties have not been touched, and the administration of the countryside remains a bastion of conservative thought.

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