

FACTORS INFLUENCING THE COMPETITIVENESS OF HUNGARIAN AGRICULTURE AND RURAL AREAS PRIOR TO JOINING THE EU

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Summary

At present a state of crisis is characteristic of Hungarian agriculture, and, together with it, of the rural areas. As much as 60% of those previously employed in the agricultural sector, 607,000 employees, have lost their jobs. Since agriculture is closely linked to rural life, it is in the rural areas that the resultant problems primarily occur. One third of the population of Hungary lives in the rural areas, but unemployment in these areas constitutes a half of the total number of unemployed in the country. During the privatisation process the land areas of Hungary were divided up to a great extent. The area of most of the individual farms is under one hectare. A substantial proportion of small plots, having been displaced from the produce supply market, now serve only the subsistence requirements of their owners. A large proportion of the agricultural structures still in operation and their successors can no longer serve the function which they previously fulfilled in their given region, while the stimulation of state intervention required is still awaited.

Keywords: agriculture, rural development, Hungary, EU

Introduction

Following the end of the Second World War an increasingly sharp divide developed in Hungary between the capital, Budapest, and the rural areas. Governments consecutively increased disproportionately the burden on the rural areas, thereby augmenting the advantages of the capital. All this also led to a lack of equilibrium with respect to Hungarian society. Similarly, the

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burdens of the 1989 change of political system have increased primarily the lot of the rural population.

Self-sufficient subsistence farms can now scarcely, if at all, ensure the survival of the rural population, depending mainly on agricultural production for their livelihood. In the interest of improving market competitiveness there is the necessity for fundamental transformation of the structure of farms and for the development of a state subsidy system.

There is now in Hungary a number of individual and joint agricultural enterprises which maintain their competitive position in the international and domestic markets, with products of good or excellent quality. Unfortunately, however, there is also an increasingly high number of enterprises which, for the greater part due to lack of capital but also in many cases due to lack of professional expertise, are incapable or will be incapable of maintaining their competitive position in the market. For this reason it will in future be of extreme importance that a system of regulation and support be established and put into operation such as to raise those individual and joint enterprises presently performing at weaker levels to a standard to render them capable of meeting the requirements of both the domestic and the international markets.

In this study the authors endeavoured to outline the characteristics indicative of the lack of equilibrium: between the Hungarian capital and the provincial areas of the country, and to draw attention to the cardinal issues and facts (i.e. the role of management, the opportunities which rural development could potentially offer, and the necessary economic and environmental conditions), which present themselves as significant contributory factors in the search for a solution to the problem.

Social and economic issues particular to the rural areas

The authors define rural development as a socio-political objective to be accomplished in the long term, this objective being based on the utilisation of the resources of each given area, and being aimed at an improvement in the living conditions of the population.

In a multifaceted approach social, economic, psychological and ecological issues and characteristics should all be taken into account at the same time, and dealt with in an integrated way.

At present a substantial proportion of the population of Hungary, some 37.4%, lives in village communities. (The small rural communities comprise more than one third of the total population of the country).

With respect to the sustaining of the rural population and the development of their living conditions the agricultural sector fulfils a highly significant function. (The situation in the agricultural sector has a fundamental determinant role in the destiny of over one million households).

In the course of the social, political and economic changes which have taken place in the past decades the aspect of the Hungarian village has been transformed several times, and in addition to the development which has been achieved this aspect has also suffered seemingly irrevocable injury and distortion, which at the same time have brought about a condition of backwardness. Due to extreme measures of interventions often contradictory situations have developed, causing a high level of burden for the rural population. The changes, mainly forced 'from above', overexaggerated, often 'unnatural', rapid and drastic, have left a legacy of great tension, seemingly unworkable experiences and problems.

In the change of political system introduced at the end of the 1980s endeavours are again being made to restructure social and economic organs, turning over the existing system of values and the network of relations, and thus once again Hungarian society, including the rural population, has found itself in an uncertain situation under circumstances in which they have no choice of options. The 'minoring' tendencies of the past decades have only served to increase this dependency, and hence the sudden change of political system caught the population unprepared.

There are 2904 towns and villages in Hungary (1996 figure). With respect to population, 1775 villages number fewer than 1500 inhabitants, 275 'dwarf' villages fewer than 200. In these very small settlements the age composition of the population reflects an ageing tendency.

Ageing of village populations and the migration to the towns of the younger generation is still a current phenomenon; in the stalling of this process a significant role could be played by rural development and support for agricultural activity.

Research aimed at mapping poverty levels, e.g. the data obtained from the survey carried out by the Hungarian Households Panel, indicates that in the course of economic restructuring it was particularly income levels in village populations which decreased by a drastic degree in the first half of this decade. This resulted in a rise in poverty levels in rural areas.

If a definition is sought for the term 'poor', then in accordance with the definition given by Andorka (1996) an individual is regarded as poor if, taking into account net income per capita, he or she belongs to one of the households living in the most disadvantageous conditions. This definition puts

8.6% of the 1995 population of Budapest and 25.3% of the village populations of that time into this category.

(The series of data recording tasks performed by the Hungarian Households Panel took place in three 'waves' in Hungary: in 1992, 1993 and 1994. In such 'panel' surveys the same households and individuals were consulted each year and questioned primarily on their income circumstances and on employment or unemployment; other topics which varied from year to year were also included. For example, in 1994 the sample comprised a total of 2108 households amounting to 5801 individuals.)

In the towns a situation worse than that in Budapest but considerably better than that in the rural areas was registered with respect to the spread and levels of poverty. The more serious form of poverty, long-term poverty, proved in this survey to be nine times more common in the villages than in the capital. This is also derived from the fact that there are present in rural society higher proportions of such social strata and groups (e.g. gipsies, the unemployed, peasant farmers, agricultural labourers and those with few academic qualifications) among whom poverty characteristically occurs to an extent exceeding the average for the population.

As a consequence of the economic recession resulting from the change in the political system large-scale redundancies have been necessary in the various branches of agriculture.

It is estimated that between 1990 and 1996 about one and a half million jobs were lost in Hungary. Therefore the number of those in paid employment fell by approximately the same figure during this period. It has been established that scarcely more than one third of this number simply became unemployed, the remaining two thirds being displaced permanently from the employment market and becoming inactive. Thus, the previous number of those in employment contracted from 53% to 38.9%.

In the light of this the proportion of the population inactive and dependent on aid changed as follows: while at the beginning of 1990 there were 98 dependent individuals for every 100 in employment, by 1996 this figure had risen to 170 per 100 in work. This resulted in a large degree of reduction in social insurance contributions, and an increase in the budget deficit arising from the loss of tax revenue. In parallel with this there was a rise in the amounts spent on support for the unemployed and those living below the poverty line.

In the agricultural sector 607,00 workers lost their jobs, this representing a 63,5% reduction in employment. This implies that only a third of those registered as working in agriculture in 1988 are still working in the sector. (See Table 1 and Table 2).

Table 1. - NUMBER OF THOSE ACTIVE IN PAID EMPLOYMENT IN THE VARIOUS AGRICULTURE-RELATED SECTORS OF THE ECONOMY

Sector	Mean 1991-1995	1992	1993	1994	1995	1996
	Figure on 1 st January (thousands)					
Total in national economy	4023	4242	3867	3701	3636	3615
Agriculture	451	553	360	326	309	284
Food industry a	170	197	171b	148b	138b	127b
Forest management	29	36	32	19	15	15
Total in agriculture – related sectors	650	786	563	493	462	426

Table 2. - FIGURES AS PERCENTAGES OF THE NATIONAL ECONOMY

Total in national economy	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	11.2	13.0	9.3	8.8	8.5	7.9
Food industry a	4.2	4.6	4.4b	4.0b	3.8b	3.5b
Forest management	0.7	0.9	0.8	0.5	0.4	0.4
Total in agriculture – related sectors	16.1	18.5	14.5	13.3	12.7	11.8

a From 1994 onwards figures refer to the manufacture of foods, drinks and tobacco products.

b Figures given include only economic enterprises employing a staff of more than 20.

(Source: AKII, 1996)

Since 1991 the number of registered unemployed in Hungary has rocketed, the proportion of those officially out of work having reached almost 14% by 1993, this representing a figure of approximately 705,000 individuals. By the beginning of 1995 this ratio had fallen to about 10.6%, but omission should not be made of the fact that the primary reason for this decrease was that the majority of those no longer registering as unemployed were no longer able to find work, and thus became inactive.

The problem of unemployment cast differing degrees of burden on the various sectors of the national economy and on the regions, communities and social strata of the country. Due to the undeveloped nature of the infrastructural conditions, the lower of training and the increasingly severe shortage of the younger age groups, village society was affected to the most serious extent by unemployment.

In November 1996 48.5% of those registered unemployed were village dwellers.

On examination of the proportion of long-term unemployed it emerges that cases of this are more common in rural communities than in the towns. This ratio is 57.1% in the villages. On the basis of national data, 41.1% of those entitled to claim unemployment benefit and 48.2% of those receiving income support live in rural communities.

The situation in the 1990s in Hungarian agriculture

As a result of the loss of subsidies and in the course of economic and social restructuring the agricultural sector has reached a situation of crisis.

Some further facts and statistics serve to illustrate the direction and nature of the changes which have occurred.

Investments in agriculture in 1989 amounted to HUF 28.6 billion. By 1993 this value had fallen to HUF 9.2 billion.

Since no genuine development has occurred with respect to capital available for investment in agriculture, the lack of modernisation has entailed a decrease in the performance capacity of the machinery in use. While in 1989 the sum performance capacity of the total of the agricultural machinery in Hungary was 8395 kW, by 1995 this capacity had decreased to 4632 kW.

The price ratio between agricultural and industrial products, relative to a value of 100% in 1989, had risen to 154.3% by 1994 and had moderated slightly to 140.5% by 1995. Between 1995 and 1996 another gap of almost 10% had opened. All this exerted a negative effect on the total income derived from agricultural production. Between 1991 and 1993 the agricultural enterprises, production cooperatives, state farms, joint stock companies, limited companies and limited partnerships closed the year with losses amounting to approximately 100 billion forints.

From the beginning of the 1990s unrestricted inflation (which reached 35% in 1991) led to substantial increases in consumer prices, resulting in a slump in domestic consumption. For example, from 1989 to 1995 milk consumption in Hungary fell from 200 litres to 130 litres per capita per year. By way of comparison, average milk consumption in the European Union is 260 litres per capita per year.

With respect to ownership relations, in 1994 in Hungary 1,201,000 private landowners were registered, working a total of 1.5 million hectares of land. It is a surprising statistic that this total area was divided into 2.5 million plots, and thus the average area of these plots was only 0.6 hectares. (See Table 3.)

Table 3. - LAND AREAS IN HUNGARY UTILISED FOR AGRICULTURE GROUPED ACCORDING TO DIMENSION, 1996

Area (hectares)	Number of farms	%	Area (hectares)	%
up to 1	978,264	81.4	231,674	16.8
1.1 to 5	173,185	14.4	378,924	27.5
5.1 to 10	28,721	2.4	198,287	14.3
10.1 to 30	16,336	1.4	261,929	18.4
30.1 to 50	2,586	0.2	97,659	7.1
50.1 to 100	1,500	0.1	101,201	7.5
100.1 to 300	514	0.0	76,365	5.5
300.1 or more	73	0.0	36,171	2.6
Total	1,201,179		1,382,210	

Although the results achieved by the agricultural enterprises in 1996 improved to a slight extent, it can be stated that the agricultural economy can still not be regarded as reaching a state of stabilisation. The symptoms of crisis are still present, although admittedly to a lesser degree than in the first half of this decade.

Summary

The main points of orientation and methods of approach which allow problem solving to be begun or continued relate to the following global domains: economic policy, social policy, rural development, village development and mental health. Data from international studies indicate that entrepreneurs intending to invest capital assign particular attention to the following characteristics of the area concerned, and which therefore are to be created:

- a) the quality of the infrastructure (within this aspect, increasingly strong emphasis is now placed on the infrastructure of telecommunications and personnel existing, while the physical infrastructure is becoming a background issue);
- b) industrial opportunities (branches of industry producing mechanical engineering and electronics equipment are of particular interest with respect to the future, as are the background industrial activities which serve these);
- c) market opportunities (priority being given to towns and villages which afford the opportunity to serve both the regional and the international export markets, while at the same time providing access to the domestic market);

- d) the efficiency of licensing administration (brevity, accuracy and simplicity of administration being important factors);
- e) macroeconomic regulation (the requirement being a predictable and stable economic strategy).

With regard to rural development, tourism resources and facilities along with the development of commercial and hospitality services constitute a significant additional factor. The towns and villages in an advantageous position in this respect are those with considerable historical, cultural and natural assets. The discovery of such assets, their development as a tourist product and their marketing represent a fundamental task. Income derived from tourism can be increased by means of the efficient exploitation of local resources, naturally entailing the creation of jobs and more widespread employment at the same time.

Hungarian agricultural policy now comprises a rather production-oriented content. In the course of the process of joining the European Union a fundamental task emerges in the form of the treatment of agricultural strategy as a social issue. In accordance with this, priority must be given in all endeavours to increase production to the sustenance of farming families, the opportunity for those involved in farming activity to remain on their land and the preservation of the natural landscape and the environment. It is essential that the owners of agricultural enterprises with foreign interests which have obtained property rights in Hungary be made aware of, and interested in, the development of the given region and the improvement of the social conditions of its population. Rural development takes its starting point fundamentally from the mobilisation of local communities.

The essence of community development is the activation of the local population, and their involvement in the issues and processes which exert a direct influence on their lives.

Thus, it is essential that the inhabitants and communities of every town and village be made capable of discovering local resources and, by means of rational, objective-oriented exploitation, of improving their own economic and social conditions.

Therefore, there is a need for a specialised system of management based on self-organisation and capable of discovering, mobilising and integrating the resources locally available.

On the threshold of the entry of Hungary into the European Union a task for the government is presented in the form of support for the endeavours of rural society and harmonisation and coordination of all efforts made. However, this requires not only the formulation of a purpose-oriented, predictable state

agricultural policy, but also the implementation of such measures of intervention as to lessen the subordination and lack of choice of opportunities currently being experienced in rural areas, with the set objective of creating a healthy situation of equilibrium.

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ČIMBENICI KOJI UTJEČU NA KONKURENTNOST MAĐARSKIH POLJOPRIVREDNIH I SEOSKIH PODRUČJA PRIJE PRISTUPANJA U EU

Sažetak

Danas je mađarska poljoprivreda u krizi a s njom i seoska područja. Čak 60% ranije zaposlenih u poljoprivrednom sektoru izgubilo je posao. Budući da je poljoprivreda usko povezana sa seoskim životom to se i problemi prvenstveno nalaze u seoskim područjima. Jedna trećina populacije u Mađarskoj živi u seoskim područjima, a nezaposlenost u tim područjima čini polovicu ukupnog broja nezaposlenih u zemlji. Za vrijeme procesa privatizacije površine zemlje su u Mađarskoj velikim dijelom razdijeljene. Površina većine individualnih gospodarstava je ispod jednog hektara. Znatno dio malih parcela, budući da su istisnuti s tržišta za opskrbu proizvodima, sada služi samo za potrebe svojih vlasnika. Veliki dio poljoprivrednih struktura koje još rade i njihovi nasljednici ne mogu više služiti svrsi koju su ranije ispunjavali u svom području, dok se još čeka na stimulaciju državne intervencije.

Ključne riječi: poljoprivreda, seoski razvoj, Mađarska, EU

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