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Rural Development in Hungary

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Introduction

To understand Hungary's rural development policy at the moment when Hungary is standing at the doorstep of the EU accession it is essential to recall some important moments in the history of Hungarian agriculture. Rural development is discussed here mainly from sociological aspects, thus this paper is going to present only the basic statistical data to reveal the most important interrelations.

1 Historic background

Between the first and the second world wars Hungary was a country of semi-feudal big landlords. Although the number of big landowners was below one per cent of the total population, the land they had was over 40 per cent of the total land territory. At the same time 28 per cent of rural population had no land at all and another 24 per cent had a land on a territory below 7 acres. Agricultural reform was the only hope for rural Hungarians, which reform arrived in 1945. About 600 thousand families who had no or small land were given land property on an average land size of 7 acres. This gave a chance for these people to start their business on 1.4 million farms in a good atmosphere. However the happiness of new farmers did not last long. In the summer of 1948 the Communist Party came on rule and they made a political harassment against kulaks (wealthy peasants). This prevented the social evolution of peasantry towards a middle class society. The development of Hungarian rural society was in the hand of external forces.

In 1949 63 per cent of Hungarian population lived in rural villages and 54 per cent worked in agriculture (*Table 1*). Fifty years later, in 1999 36.5 per cent lived in rural villages and 7.1 per cent worked in agriculture. This fifty-year period is characterised by the collapse of the traditional peasant society, which was a very fast process in Hungary. While in Britain one hundred years, in Germany eighty years were needed for this process, in Hungary the rate of agricultural wage earners dropped from fifty per cent to twenty five per cent within twenty years only (1950–1970). The organisation of Soviet type cooperative farms was a further assistance to the disintegration of the traditional rural peasant society.¹ The organisation of cooperatives took place in two stages.

¹ The Soviet type collectivisation differed from the Western European in its complete elimination of private property. Also the production took place in the cooperative system.

Table 1

*The division of population by dwelling and the rate of agricultural wage earners
(thousand)*

Year	S e t t l e m e n t								The rate of active agricultural wage earners	
	Budapest		Other cities		Villages		Total			
	People	%	People	%	People	%	People	%	People	%
1949	1590	17.3	1774	19.3	5841	63.4	9205	100.0	3171	53.9
1960	1783	17.9	2633	26.4	5345	65.7	9961	100.0	2227	38.7
1970	2001	19.4	3109	30.1	5212	50.5	10322	100.0	1550	25.7
1980	2060	19.2	3642	34.0	5008	45.8	10710	100.0	943	18.6
1990	2017	19.4	4400	42.4	3958	38.2	10375	100.0	639	14.2
1991	2018	19.5	4418	42.6	3919	37.9	10355	100.0	710	15.2
1992	2016	19.5	4461	43.1	3861	37.4	10337	100.0	460	14.3
1993	2008	19.5	4504	43.7	3790	36.8	10310	100.0	392	10.1
1994	1996	19.3	4562	44.5	3719	36.2	10277	100.0	327	8.7
1995	1930	18.8	4500	43.9	3816	37.3	10246	100.0	295	8.0
1996	1907	18.7	4515	44.2	3790	37.1	10212	100.0	302	8.0
1997	1886	18.5	4539	44.6	3749	36.9	10174	100.0	288	7.9
1998	1863	18.4	4519	44.6	3753	37.0	10135	100.0	278	7.5
1999	1839	18.2	4570	45.3	3682	36.5	10091	100.0	270	7.1

Source: Hungarian Statistical Yearbooks. KSH.

The first phase of collectivisation started in the early 1950s. It was typical in this process that small landowners, or agricultural workers who had no land or experience in farming who were forced to join the new cooperatives. Communist party activists who had no competence in agricultural matters headed these cooperatives. The cooperatives that were formed at that time were very unsuccessful in business and showed negative example. After the death of Stalin (1953) these cooperatives ceased.

The second phase of collectivisation started after the breakdown of the 1956 revolution (1959–1961). The communist party (bearing the name of Hungarian Socialist Workers' Party) learned from the negative experiences of the first round of collectivisation. In the second round the best agricultural experts were appointed as heads of cooperatives. Though it was a hard job but agricultural workers could be persuaded to join cooperatives. By 1961 only 4 per cent of the total agricultural land was in private hands, the remaining 96 per cent of land belonged to cooperatives and state farms.

For all the initial problems and the use of methods being far from a peasant's mentality Hungarian agriculture achieved success in the socialist era. The

essence of this phenomenon is that the less Hungarian agriculture followed the Soviet model the more successful it was. However this rapid development of agriculture was paid at a high price at a later time.

In Hungary (between the late 1960s and the early 1980s) a technological and biological modernisation took place. This was the industrialisation of agriculture. At that time the generation of old peasants and cooperative founders retired. There were two groups were to follow them; the first, smaller group was the elite group of qualified agricultural intelligence, expertise and agricultural workers. The second, large group was the group of less skilled and unskilled farmers. The first group gained income not only from their full-time job. In many cases they earned money from special large-scale part time farming activities. The second group's part time farming was only subsistence farming. The group of subsistence farmers also consisted of villagers commuting to cities for jobs in the industry. (In the mid 1980s 50 per cent of the total vegetable and fruit production and animal husbandry was done in private farms. Only cereal crop production was done in cooperatives and state farms). Both experts and unskilled farmers specialised their production and were profit oriented. They had different value preferences from their ancestors who were in love with their land and who were farming only to provide food for their family.

2 The situation of agriculture ten years after the political transformation

In Hungary the total size of arable land is 4.7 million hectares, 63 per cent of the total fertile land. The soil and climatic features are good for crop production. Although only 260 thousand wage earners work in agriculture (*Table 1*) the number of people living on agriculture is far larger. On the basis of the situation on 21 March 2000 the Hungarian Central Statistical Office made a census. This census provides statistical data on farmers and the size of their business. The criteria of the term agricultural farming unit included in the census were as follows:

1. 1500 square metres of arable land or
2. 500 square metres of orchard or vineyard or
3. Breeding at least one large animal (cow, sheep, pig, etc.) or
4. 50 items of poultry or
5. 25 items of rabbit or
6. 5 honeybee families or
7. Rendering agricultural services or dealing with interactive gardening (e.g. hothouse plantation)

The agricultural survey covers the data of 2.1 million households (that is nearly two thirds of the total). 960 thousand met the required criteria. Another 835 thousand were below the criteria set up for land size or livestock. (*Table 2*) Besides individual farmers 8000 agricultural companies (agricultural share companies, ltd-s, and cooperatives) were assessed in the census. From the firms and entrepreneurs interviewed 300 thousand did not do any agricultural activities. The results indicate that half of the total households are interested in some agricultural business.

Table 2

The agricultural population of Hungary, the number of farms, the size of land and animal livestock in year 2000

<i>Agricultural business indicators</i>			
Population (thousand)	Agricultural companies	Private farms	Non farms
2035.5	8382	958 534	835 617
<i>Agricultural land use indicators</i>			
Total agricultural land used by (thousand hectares)	Total	Agricultural companies	Private farms
	6448	3834	2614
<i>Stock breeding indicators</i>			
Total animal livestock raised in Animal units*	Farms	Agricultural companies	Private farms
	1 665 181	888 122	777 059

*An average calculated on a variety of animals. One unit equals with 500 kgs (1000 pounds) of livestock or animal groups e.g. 1 cow = 0.8 animal units, 1 turkey = 0.13 animal units.

Source: Magyarország mezőgazdasága a 2000. évben (Agriculture in Hungary in the year of 2000.) regional date. Budapest, KSH, 2000.

Private farmers cultivate 40 per cent of total agricultural land and 60 per cent is cultivated by agricultural companies. The size of the majority of private farms is below 0.5 hectares and only 5 per cent of private farms exceed the size of 10 hectares. (*Table 3*) Agricultural companies have big lands. From the 8 thousand firms every fifth own a property of 1000–5000 hectares. Although the total number of livestock raised by farmers and agricultural companies is almost equal, the latter concentrates the majority of cow and pig stock. Other domestic animals are raised in private farms.

Table 3

The distribution of farms by agricultural land size

Private farms		Agricultural companies	
Land size (hectares)	Percentage	Land size (hectares)	Percentage
– 0.15	28.63	– 10.0	12.71
0.15 – 0.50	32.48	10.1 – 50.0	21.13
0.51 – 1.00	1.79	50.1 – 100.0	9.65
1.10 – 5.00	18.52	100.1 – 300.0	19.51
5.10 – 10.00	4.39	300.1 – 500.0	5.32
10.10 – 50.00	4.47	500.1 – 1000.0	9.85
50.10 – 100.00	0.48	1000.1 – 5000.0	20.07
100.10 – 300.00	0.22	5000.1 – 10000.0	0.91
300.10 –	0.03	10000.1 –	0.84
Total	100.00	Total	100.0

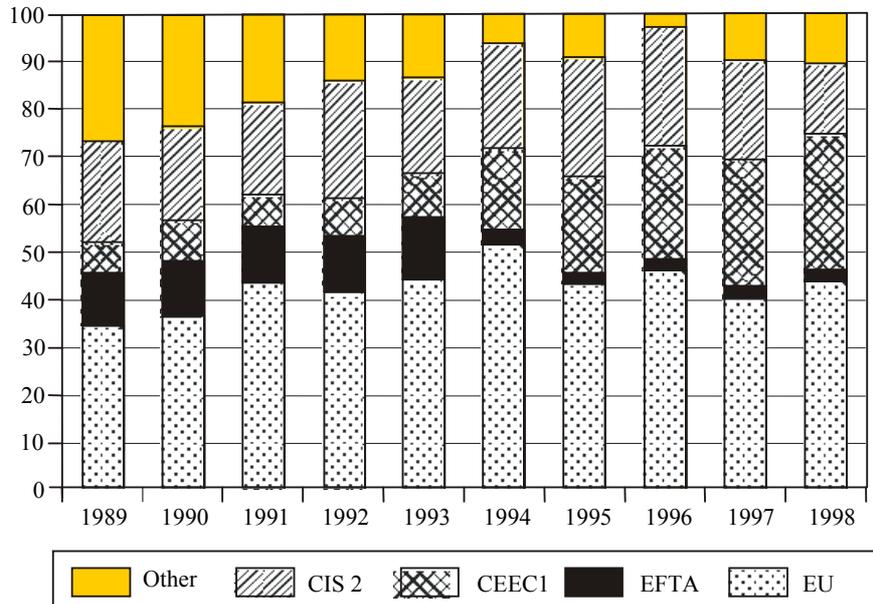
Source: Magyarország mezőgazdasága a 2000. évben (Agriculture in Hungary in the year of 2000.) regional date. Budapest, KSH, 2000.

In 1990 15.3 per cent of the GDP came from agriculture. This figure dropped to 5.5 by the year 1999. Nevertheless, the agricultural sector produced an extra income of 1.5–2 billion dollars. This money was a significant help to keep Hungary's foreign trade deficit on low level. The target areas of Hungarian agricultural export are the European Union, the countries of East Central Europe, and the countries of the former Soviet Union (*Figure 1*). The primary agricultural products that are exported to the European Union are as follows: meat and meat products, vegetables and fruits. The overall production volume of Hungarian agricultural products is below 5 per cent of the production of the 15 EU member states. Only the following products are exceptions:

- Wheat, apple, cucumber, duck meat with 5–10 per cent
- Corn, sour cherry, plum with 10–20 per cent
- Honey, raspberry, sunflower with over 20 per cent of the total EU production.

Figure 1

The spatial distribution of Hungarian agricultural export between 1989 and 1998



1. Central and Eastern European Countries (with the exclusion of the former Soviet Union)
2. The former Soviet Union

Sources: Magyar Mezőgazdaság (Hungarian Agriculture) 2000. 43. 11. p.

3 The problems of rural development

Some problems of Hungarian rural areas date back to the past centuries, decades and the period after the political transformation. In this chapter I am going to overview the major problems of the past 70 years emphasizing on the socialist era and the problems that followed after the political transformation. The problems presented here stem from Hungary's overall economic and political situation.

In Hungary *poverty* is the deepest problem of rural areas. The peasant society tried to ease this problem by various methods: by emigration before the First World War and by bringing up only one child to avoid the fragmentation of land properties.

The equalisation of rural and urban incomes in Hungary was the greatest result in the 1970s, the booming time of socialism. This was a unique phe-

nomenon in East Central Europe. *This was not due to the government's rural policy* but rather the result of the hard work of rural people. They had two sources of income. The first income came either from urban workplaces or from local industrial companies or agricultural cooperatives. The majority of rural people were progressing towards a bourgeois society. Now we are aware that this process was not completed. Rural workers after finishing their full-time job started their part-time job, which in most cases was bound to agriculture. They did it to earn an additional income for building a new house, a holiday cottage or purchasing furniture, car or other consumer goods. This was a great turn in the life of rural people, for they had never before spent their work or money for such purposes.

The malfunctions in the socialist macroeconomic system – the uncompetitive and expensive production, the scarcity of goods – were improved by rural population, the millions who worked overtime in their second economy, turning the incompleteness of the system for their own benefit. *Second economies were not real businesses* in the original meaning of the word. There were no capital investments made, there was no urge for bearing risks in production and selling. It was cooperatives and state farms that were real investors and integrated production and market instead of private farmers. They also undertook the partial or full risks of production, which made the job of integrated farms simpler, easier and more comfortable.

After the political transformation the termination of jobs and integrated firms forced the majority of agricultural farms to minimise their production or to close down. It became obvious that the majority of those rural farmers who had lost their job closed their farm as well. They were following the patterns they had taken up in their full-time job in cities, in their part-time economy. These rural people were living in a safe atmosphere of their workplace, being dependent from others. When they lost their job, they lost their confidence, their future plans and feeling helpless they abandoned their farms as well. This made them even poorer. This process is a pretty good example how working patterns influence on people. That is the reason why the rate of *the poorest* has *tripled* in villages compared to cities, and *quadrupled* compared to Budapest, as it was indicated in ANDORKA, Rudolf's survey. However, the rate of the top classes in handicapped villages is one seventh of those in Budapest. Pauperisation is much bigger in villages because the chances of social evolution are very small there.

The second major problem of rural society is its *limited chances for social evolution*. This going to be discussed

1. In comparison within rural society and
2. In comparison between villages and cities

Until the redistribution of land in 1945, good-quality and large lands were in the hands of *semi-feudal* landlords. This created a rigid subordination system between the elite and poor peasant society. In his book 'Elfelejtett falu' (Village Out of Memory) KOPÁTSY Sándor says: 'the old rural society has been poisoned by property, nationality and clerical limitations. They all were practically unbeatable. In this aspect our villages seem to have been left in the middle ages. The radical collectivisation has beaten down these property, nationality and clerical limitations.' (11. p.)

This is the reason why *rural social disparities significantly decreased* in the socialist era. Families living on primary and secondary incomes were able to create normal living conditions for themselves. After the political transformation this kind of stability ceased. This is the reason why it is the stability of their existence that rural people feel much more important than free press, free competition, or decreasing inflation or improving living conditions. In the socialist era the stability these people got used to and feel very important, hindered real social development. That's why rural people were unable to benefit from market economy.

ENYEDI, György in his book 'Falvaink sorsa' (The Fortune of Our Villages) published in 1980 says: 'Urban and rural development in case of cities proves to be a public but in case of villages seems to be a private affair.' (54. p.) This process – in a paradox way – lessened social differences within rural communities but *increased differences between rural and urban settlements*.

The smaller a community was the worse position it had within the settlement system. In the 'golden age' of socialism the living conditions of 1.5 million rural people were worse than those living in more advantageous areas. There were no infrastructure and service development in about one half of villages. One of the greatest results of the rural development policy of the post-socialist era is the enormous effort to bridge development gaps between rural and urban settlements. In 1993, for example, 47 per cent of development funds were spent on rural development purposes. This significantly improved water and drainpipe infrastructure, school gym hall facilities, telephone and gas networks in rural areas. This is a large improvement, in compared to the 1970s when 7 per cent of funds were spent for rural development, whereas one half of the total population lived on rural areas at that time.

The decline of rural communities is the third major problem of Hungarian rural areas.

The traditional peasant community of the period between the two world wars was based on the family instead of the individual. Only grown-ups – through their family – could join various circles, groups and self-organised *business associations*. (e.g. pasturing committees, foresters' companies, wine cellar cooperatives etc.) These associations worked in the form of a community and were operated democratically. The leaders were elected on a rotational basis.

Thus, local communities had an enormous initiative force. Community membership *created a feeling of cohesion and protection*, a sense of identity and confidence. Communities could have been a good starting point for later civil organisations and private initiatives but the Hungarian Communist Party banned all communities that were organised on social basis. Thus, individuals were deprived of *self-organised*, community activities. The whole society was atomised. With changes in the job and housing situation the role of family as a value model significantly decreased. The socialist system by making people believe in the illusion of a powerful, caring society and creating a sense of fear, deprived its citizens of self-reliance, self-knowledge and initiations.

Apart from some exceptions, the majority of local civil organisations having been established since 1989 were too weak to have a major influence on rural development. Good *communities may be the driving force* of local development. The communist type rural development gives no alternative for community based development. In the old times natural rules were set up by life itself. We should not bring back these old rules again but a new well-operating system should be set up on the basis of the present situation. To achieve this objective chances should be given to handicapped rural residents to find their way out of their crisis.

4 The general situation of rural areas after the political transformation

After the political transformation villages had both positive and negative phenomena in the history of their development.

The positive elements are as follows:

1. A local government was set up in every village
2. A significant progress has been made in rural infrastructure

The negative elements are as follows:

1. The growth of unemployment
2. The cutback of agricultural production

Elected local authorities make decisions on local development projects. It was small villages that were mostly dependant from state assistance having no incomes from local taxation. In the early 1990s 36-37 per cent of active wage earners and 48 per cent of the unemployed lived in rural settlements. Unemployment was much higher in rural areas (13.8 per cent) than the national average. (10.4 per cent in 1998) Villages below the population of 500 had extremely high unemployment. At the same time agricultural production dropped to 60 per

cent of the level it had in 1989. It was stock farming that decreased the most sharply.

The reader may be on the opinion that today, ten years after the political transformation, the majority of Hungarian rural settlements are the losers of the political transformation. However, while the number of Hungary's total population is decreasing, the rate of rural population has remained on the same level, nevertheless, occasionally it has even increased. The year 1994 was the first year when the number of rural population was on the bottom after the political transformation (3719 thousand) but a 4-year increase started in the following year 1995. However, in 1999 only 3682 thousand lived in rural areas. This number is the largest negative record in the 1990s, being below the first one in 1994 (*Table 1*). In countries with advanced economy the growth of rural population is the result of de-urbanisation, the migration of middle class to rural settlements. The question here is why the number of rural population increased if rural areas are regarded to be the losers of political transformation?

There are three reasons for the growth of rural population in Hungary. They are suburbanisation, migration and handicapped social position.

1. Suburbanisation. In the socialist era council flats were built only in cities. Rural residents built their house themselves. Since the mid-1980s villagers were paid state assistance to solve their housing problems. At the same time the building of council flats dropped in cities. As a result, blue- and white-collar city workers built their house in the agglomeration area of the cities they worked in. Living and commuting from within a 50 kilometre (30 mile) radius of Budapest and from within a 30 kilometre (20 mile) radius of large cities became a popular social phenomenon. However, the increase in purchasing power resulting from the migration of rich and educated social classes to rural areas did not generate a booming rural economy. Those wealthy people who live in villages travel to cities for shopping, because those services they need are available in cities only. Taking children to city kindergartens and schools is an example for their attitude to rural services. Thus, suburbanisation increases the number of rural population but growth is not coupled with local identity. The migration of blue- and white-collar urban population is still to be regarded as a positive trend because it accelerates the progress of rural society towards a middle class society.

2. Migration. In the period after the political transformation 200–220 thousand people change their home every year. More than half are out-migrations to rural settlements. Rural areas have had a positive migration balance since 1989, while the balance of Budapest and large cities has been negative. Increasing urban housing costs are a reason for that. This is especially true in case of urban housing estates. Between 1995–1997 several old-age pensioners having purchased the council flat they lived in the socialist era sold it out on a much higher price. They could spend the profit they gained through this transaction

for a rural house. They could purchase a house either in the proximity of their previous flat, or in their home village or somewhere else. Typically the urban poor and the elderly migrated to rural areas in this way, which further increased the average age of rural people and their need for the young, educated generation. This problem is extremely deep because it is only the young generation that may be expected to find solutions for the problems of rural areas.

3. *Handicapped social position.* The unskilled rural residents are the greatest losers of the political transformation. They are mainly gypsies. Their low education is coupled with low work culture and the absence of venture capital. Thus, they have no chances on the labour market. In the socialist era nobody was allowed to make capital investments. Those coming from families that were poor before the political transformation got into a “no way out” situation after losing their job having provided them a small but stable income. This group lives only on child-care allowance and various social benefits. Houses without infrastructure are more frequent in rural than urban areas. They have lower maintenance costs. This is the reason why rural areas are more attractive for the poor. The rate of gypsies is extremely high in Hungary’s northeastern and southwestern small village areas. The demographic features of gypsies and Hungarians of similar social situation (early age maternity, large number of children) largely contribute to the growth of rural population. Hungarian rural policy should concentrate on providing extra development funds to these socially disadvantaged areas. These funds should be used for the education of gypsies and poor Hungarians to improve their labour market chances. The provision of assistance to subsistence farming is also a very important task. Farming was natural in the old traditional peasant society, but now it won’t work without help. In general, it is much easier to apply for grants and benefits than doing something actively.

In the past few years the number of non-Hungarian residents has significantly increased in rural areas. Since 1993, it is county public administration authorities that have licenses to authorise foreigners for purchasing real estates in Hungary. Until 1993 the Centre for the Financial Institutions of Hungary, seated in Budapest, had competence over these matters. With the exception of agricultural land the purchase of Hungarian real estates by foreigners was a very easy and simple process. Low prices, quiet and peaceful rural landscape attracted buyers from the European Union and America. These people spend only a part of their time in Hungary. Generally they ask a caretaker to look after their house while they are away. In some instances a whole village is in the hand of foreign landowners. The surroundings of Lake Balaton, the western and southwestern rural areas are the most popular among foreigners. The scattered farms of the Great Hungarian Plain are also very popular. Generally the first buyer brings additional buyers. The good side of this matter is that foreign citizens generally improve the outlook of the site the bad thing is that no state as-

sistance is received for foreigners because they are not permanent residents. In villages with natives outweighed by foreigners, it is a real threat that public services (e.g. schools) will terminate due to financial problems.

5 The diverse development of rural areas

In Hungary there were always large differences among settlement categories. Budapest the capital changed into a metropolis at the turn of the 19th and 20th centuries. Hungary lost her major regional centres after the peace treaties that followed the First World War. Apart from some major cities at the western part with Debrecen and Szeged in the eastern regions the majority of Hungarian settlements were small agricultural towns with a small city centre and rural style buildings. In the socialist era large efforts were made towards the development of these small agricultural towns. However the number of new jobs created was more than the number of new flats built. The majority of workers were forced to daily commuting. In the late 1970s the ‘golden age’ of socialism 1.5 million people one quarter of total active wage earners were commuting to work in cities.

No financial resources were available for flat construction and infrastructure development in rural areas. In the 1980s flat construction started in large villages because state assistance was given to rural flat construction instead of urban council flats. Although state assistance was able to initiate the construction of new homes, no funds were available for infrastructure development projects. After the political transformation extensive – in some instances irrational – development projects were launched in rural areas. In the early 1990s, the per head indicators of infrastructure development were higher in rural than in urban areas. Large progress has been made in the construction of telephone, public road, water, drainpipe gas systems and schools. For all this progress, due to heavy unemployment, the absence of foreign venture capital and poor human resources, the overall development indicators of rural areas were below the expectations. Today three categories of rural areas exist (*Table 4*).

Table 4

Development categories of the villages

Category of village	Village	Population
	P e r c e n t a g e	
1. Viable	20	40 – 50
2. Underdeveloped	30	20
3. In transition	50	30 – 40

Source: The author's assessment.

1. *Viable villages.* 20 per cent of villages and almost half of the total rural population belong to this category. These villages are scattered around the country but mostly in the proximity of major roads and cities offering good job opportunities. The popular hillside recreational villages offering facilities for rural tourism also belong to this category. The majority is situated along the Vienna–Budapest route. This area and the agglomeration of Budapest are the most advanced Hungarian regions. In viable villages the representation of blue and white-collar population is starting to outweigh the native locals. The white and blue-collar population who had run away from cities largely contributed to giving a middle-class feature to the traditional rural class society. Here the number of SME-s also shows an increasing tendency.

2. *Underdeveloped villages.* 30 per cent of villages and 20 per cent of the total rural population belong to this category. These villages are located in underdeveloped areas far from cities. They are also available along county or eastern country borders and have poor transport connections. These areas have poor quality arable land or bumpy land surface. These villages are scattered around the country but most frequently occur in northeastern and southwestern Hungary. The majority are small villages with a population below 500. Public facilities were closed in the socialist era. The establishment of local authorities after the political transformation did not improve their overall situation. These villages have low educated, poor Hungarian and gypsy population. Here the majority of families live on child care allowance, some benefits and odd jobs. The rate of the poor is quadruple the rate of the wealthy class is one seventh of Budapest the capital. Pauperisation is looking forward to be a durable tendency in these areas.

3. *Villages in transition.* They are neither in top nor in bottom situation. One half of villages and 30-40 per cent of the total population belong to this category. The majority of the local population are lower middle class or poor people. They do nothing but wait. They have a house, furniture, the husband or the wife or both have a job. They do some part-time farming but it provides low income for them. Even the education of children is a problem for these families.

Due to the drastic increase of urban housing costs several old-age pensioners were forced to move from cities to rural areas where living costs are smaller. A gas heated urban flat's maintenance costs are much higher than the costs of a rural house with a garden. A rural house may be heated traditionally (by wood or coal) and by heating only some rooms instead of the full house a lot of money may be saved in winter. Rural houses have a separate water meter, which measure individual water consumption. Urban blocks of flats have only one common water-meter. In this system total water consumption is divided on a per head basis according to the number of families.

In my opinion Hungarian rural policy should support transitional villages so that they would not turn backward. At the same time rural policymakers should prepare various strategies for the most handicapped rural areas. Here the improvement of human resources is the most important. Now the real threat is that if Hungary joins the European Union, a large number of people living now in backward areas, will emigrate into countries that are more advanced than Hungary. The Hungarians are well aware that these people should remain and be supported where they live now. Unfortunately no funds are available for this purpose yet.

6 The role of agriculture in rural income

Fertile land is the most important – in some instances the only – natural resource of rural areas. For several centuries it was the only source of rural income. Apart from Budapest and some major cities the whole Hungarian society was bound to land, it was their only income source. Agriculture was not only the business of agricultural farmers. It gave jobs for rural artisans – through agricultural tools and machinery repair service – and for lawyers who were administering the farmers' estates and inheritance matters. In the early 20th century various agricultural businesses from milling industry through meat processing to various services that rural society was in need of started in Hungary. After the extinction of the traditional peasant society these activities either survived in a new form or were terminated. In the socialist era villages had some industry. If rural industrial firms were selling their products to east European markets – and the majority did so – they went bankrupt after the political transformation. Rural services were very poor until the end of socialism. These facts mentioned clearly show that rural economy was in critical situation at the beginning of the political transformation and apart from some areas it is still in crisis. The question 'How to make rural society viable?' is still very topical.

The privatisation of agriculture brought land for 2 million people. However only the minority of landowners deal with farming. Some have sold others have

leased their land. I estimate the number of active farmers to be the least within this group.

There are four groups of active rural population on the basis of income:

Group 1: The primary income of group members comes from non-agricultural sector. Agriculture in case of this group means subsistence farming in vegetable garden or on small land below the size of 1500 square meters. The lease of a maximum 3-hectare land also might occur here. The majority of citizens belong to this category. I estimate this group to 40-50 per cent of the active rural population. They either can afford to give up farming or unable to do it and for this reason they lease their land. Agriculture is not really important for them.

Group 2: Group members have their own farm and they do farming as managers or members of private or agricultural companies. 10–15 per cent of the active rural population belong to this category. This group has maintained the original function of villages by continuous agricultural farming. The territory of their farms varies between 30 and 1000 hectares per family. Their employees have no private land they get monthly salary only.

Group 3: Group members are part-time farmers only or lease their land if they have big land. Part time farming is typical in the EU and in Hungary it is also desirable to have more than one job. 10–15 per cent of active rural belong to this category. The typical farm size is between 5 and 50 hectares per family.

Group 4: Group members have neither land no jobs, because they are either too young and the farm belongs to their parents or find no job on the job market. 30–35 per cent of the active rural population belong to this category. They should get a job outside the agricultural sector.

Due to the reasons mentioned, it seems that farms still have some role in rural income but this role is only a partial one giving potential life support and a sense of security for farmers.

7 Rural development policy in Hungary

Hungary's EU accession and the gradual introduction of the EU *acquis communautaire* system increased the role of rural development policy and its terminology in Hungary's scientific and political areas and press language. Our EU accession may end up in failure if EU patterns are disregarded by Hungarian rural development policy.

It is very important that both in the European Union and Hungary rural development policy is to treat rural employment problems and the excess of agricultural population. For all these similarities rural development policy follows different patterns in the European Union and in Hungary.

In the EU the revolution of the information technology – the second industrial revolution – made possible to avoid considering rural development bringing changes only for a minority of local communities. This has put an end to the illusion of the continuous growth theory. The problems of agricultural surplus show that the one-side profit orientation of production will generate waste, environmental pollution and will lead to deadlock in the evolution process. The concept of sustainable development was born as a response to this phenomenon. Sustainability demands putting the quality of life above the quantity aspects of consumption. In this respect sustainable development is closely related to rural areas. In the European Union rural development policy derives from a new philosophy of sustainable development and the opposition of globalisation.

In Hungary rural development policy is associated with the backwardness of rural economy. The 1996. XXI. Act on Regional Development and Physical Planning with the 1997. CXIV. Act on the Development of Agricultural Economy serve as legal standpoints for Hungarian rural development. The government elected in 1998 put rural development under the competence of the Ministry of Agriculture. Then the name of the Ministry was changed to Ministry of Agriculture and Rural Development. In January 1999 a Department of Rural Development Programmes was organised within the Ministry.

8 Integrated rural development

Article 2 of the 1996 Cork Declaration is about the integrated aspect of rural areas. The Declaration starts from the point that rural development policy must be multi-disciplinary in concept and multi-sectoral in application. These two principles are the most important in rural development but integration should cover a wider sphere. In Hungary rural development should cover the following areas:

- Interdisciplinary approach;
- Cross-sectoral integration;
- The integration of cities with villages;
- The integration of rural society;

Integration should cover all areas mentioned here. Details will follow in the next chapters.

8.1 Interdisciplinary approach

In Hungary rural development concepts are integrated from multiple disciplines. This does not mean that all sciences that have something to do with rural

development really do that. Compared to the rural disciplines of the European Union with the Hungarian the shortage of Hungarian macroeconomic experts seems to be a large gap. Hungarian rural development experts should express their opinion on rural policy to the public but so far they have not done it. In Hungary three research groups study rural development. These three are sociologists, agricultural researchers and the experts of SAPARD (Special Accession Program for Agricultural Rural Development) Programme. They study different aspects of rural development.

1. The most comprehensive researches in rural development issues are carried out by *sociologists*, namely by rural sociologists (together with some geographers of similar interest). Sociologists restarted their village sociology researches in the 1980s. They were to revive and continue the old traditions of the rural sociology of the past. The majority who participated on village research group meetings (or discussions in rural research camps) in the 1980s are now publishing papers on various rural development issues and firmly state that there is an relationship between rural and regional policy. Although rural development is an integral part of regional development they use different policies through the realisation of their objectives. The elimination of regional disparities is the fundamental objective of regional development. Regional development is going to achieve this target through effective economic development. According to theory of regional development the extension of markets is another reason why the situation of backward areas should be improved. Rural development is also targeted to the elimination of regional disparities but it is going to achieve that through the improvement of peripheral areas.

To sum it up, to achieve the same result

- Regional development is targeted for effective economic development;
- Rural development is targeted for the improvement of peripheral areas

Obviously, effective economic development is an integral part of rural development but rural development comprises the improvement of human resources and the maintenance of local communities as well.

2. *Agricultural experts* are the second group of rural development researchers. In the EU the institutional system of rural development has very close relationship with the agricultural sector because the EU is going to terminate its assistance to farmers within the system of Common Agricultural Policy, which was established in the Rome Treaty. The assistance Hungarian farmers receive now from the government is far less than the EU level. Today the direct assistance the EU would provide to Hungarian farmers would be twenty times higher than the present level of state assistance. Among countries that have market economy and agricultural surplus only rich countries have modern agriculture. Very large sums were spent there for the modernisation of agriculture in the past years. Nearly all governments in rich countries protect and give support to

agriculture. New Zealand is the only exception because in New Zealand agriculture was modernised instead of industry and the country turned to be prosperous in that way. Agriculture receives only 5 per cent support there.

Although in Hungary only 7 per cent of the total population is a full-time farmer, agriculture is still a national identity symbol. This may be explained by the fact that in 1949 one half of the total active wage earners were living on agriculture and today still one half of the total families deals with part-time farming to save on food costs.

The success of agriculture in the socialist era created the image of Hungary as “food pantry for Eastern Europe”.

The emotional attitude towards agriculture is not only a Hungarian feature. European countries with modern agriculture (France, Finland, Austria) are also agriculture-minded and this is the reason for the survival of the assistance philosophy of Common Agricultural Policy.

Not only positive images are associated with agriculture. In Hungary a lot of experts worry about agriculture, saying, that this sector will be the loser of Hungary’s EU accession. To avoid this the term ‘profit-making agriculture’, regarded as the best alternative of rural policy, has been introduced. Those who are on this opinion think that agricultural grants should be given only to competitive farms. This view suggests that rural development is only the result of agricultural development.

3. Within the framework of the Hungarian programme of SAPARD, together with regional and county level programmes, various inter-settlement cooperation projects were born, which served as a basis for micro-regional projects. As a result of cooperation, small workgroups are formed. Group members by writing their own SAPARD programme, may turn themselves into rural development experts. These experts have various professional backgrounds. They consider *rural development as an instrument of stopping the disorders of a classical market economy*. These people represent the official part and may give a new approach to rural development. They may establish strong relationship and this may increase the social basis of rural development with the size of expert groups. Hungarian SAPARD experts hold the opinion that human resources, various adult education programmes, environmental and educational objectives should receive priorities in rural development. They completely disregard the aspects of competitive agriculture. It depends only themselves whether they remain rural experts or not in the future. This new expertise should tackle two problems. First, they are to write some articles into journals because their views on rural development issues have not been published in any papers. Second, their potential candidates to whom they write their proposals have no financial resources. If calls for tender are published for SAPARD projects, only those who can submit their tender will receive resources. I must tell, am afraid that development projects will proceed not in the same way that

SAPARD programmers desired. It might turn out that all was nothing but illusion and Hungarian SAPARD programmes will have to stop.

A broader interdisciplinary approach to rural development requires two things: The first is that all rural scientist should publish their opinion in scientific journals and the ministry of Agriculture and Rural Development should be responsible for the practical realisation of concepts. The second is a close cooperation among different sciences serving as a basis for a sound rural development policy. Rural development experts need various forums to express and discuss their views and opinions on meetings.

8.2 Integration of economic sectors

The rural economy of the socialist era was unable to survive the political transformation. Due to the decrease of state assistance and the loss of European markets the overall volume of agricultural production dropped by 40 per cent. Rural industry was in an initial phase only and was unable to compete with the emerging products imported from West European countries. Rural services were very poor until the end of socialism. These are the reasons why rural economy was and apart from some instances it is still in crisis. Rural development may be achieved by an integrated development of various economic sectors.

Concerning living and employment conditions, 10–15 per cent of rural population are full-time farmers another 10–15 per cent are part-time farmers. The rest work in cities or local industry or unemployed.

Unemployment is the deepest problem of today's rural society. The socialist era had full employment coupled with large-scale hidden unemployment. After the political transformation "phantom jobs" gradually ceased. In year 2000 the number of jobs were 25 per cent less than ten years before. Ordinary rural people were unable to gain benefits from privatisation. This is particularly true in case of the uneducated rural. Some of them retired and live as old age or disability pensioners. These tricks of "pensioning off" were used to avoid unemployment. The scarcity of jobs is the largest obstacle of rural development. The diversification of rural economy may be a solution for this problem.

Hungary's accession to the EU may accelerate rural development in two areas. The first is local resource based agricultural and non-agricultural activities – including food processing – because assistance will be given to these investments. The other area is local services that will be rendered for local residents and visitors.

Agricultural support may have special role in rural development. Nobody knows yet the volume of the normative assistance Hungarian agriculture will receive from EU funds but it surely will be higher than the present sum of 22–

24 billion HUF Hungarian farmers receive from the budget now. This is especially true considering price changes. The question is that what purposes will this sum be spent for. Production costs the largest item in farmers' budget will not increase only taxation will be heavier. The income farmers will gain from the increased assistance may either be spent on the modernisation of production or for the improvement of personal living conditions. After Greece's EU accession in 1981 Greek farmers used the agricultural support they gained from the EU for the improvement of their personal living conditions. Although a part of this sum was really earmarked for these purposes, but actually it should have been spent for technical investments, and this did not happen. This is the reason of the low productivity of Greek agriculture coupled with low food consumption. While in 1989 dairy production was 760 kg (1520 pounds) per head in the Netherlands, it was only 71 kg (142 pounds) per head in Greece. Even if Greece had a very low dairy consumption, it covered only 84 per cent.

Hungary has a real threat to have the same tendency. The lack of small farming or multi-generation farming strategies may result in this. The increase in normative agricultural support after Hungary's EU accession will increase differences between small and large farms, favouring for the latter. Agricultural support will not cover the costs of technical modernisation for small farmers. They may either spend the grants for other purposes or may cooperate through the realisation of common development projects. If they are unable to cooperate they could do the best by spending their money for the education or training of their children. In this way the young generation would not work in agriculture but could keep staying in villages. Their job qualifications in the service sector would provide good full-time jobs in small farms. Later on small farmer families may terminate their agricultural activities and through the union of their lands they may grow the agricultural land of other families. This can result in a trend in which local money is spent locally.

Although the level of food consumption cannot exceed a certain limit, its structure may undergo some transformation. The largest demand will be for various local services. Educating young people to be able to render services meeting local demands is our great task. Otherwise rural people will travel to cities and they will spend their money there. Local incomes should be spent locally and the income, circulating round the community, will serve for the overall benefit of local residents.

In the EU the welfare of rural people is based on two policies.

One is that the taxpayers' money is redirected to rural areas to contribute to the income of rural farmers who are to sell their products on low prices of the global market. The other policy is also funded from the taxpayers' money. It provides financial assistance to rural areas for rural regeneration, environment and landscape economy projects. This is a feasible practice because, on the one hand the European Union is a welfare society, on the other hand the sight of

nice rural landscape gives a good image and atmosphere not only for the local people but for tourists and holiday visitors as well. The same reasons motivate environmental and landscape economy support projects. These projects serve for the overall benefit of the whole society.

For a long time the European Union's Common Agricultural Policy concentrated only on farmers' assistance. It was only during the last ten years that its strategy moved towards rural development. Beyond economic reasons, the heritage of peaceful rural landscape is such a great value for the Europeans that they are ready to do their best to preserve it. If Hungary also turns into a welfare society, Hungarians will surely follow this model. Several problems should be tackled to achieve this. Here I would shortly define the tasks of local citizens, politicians and politics. Local citizens should learn or educate their children. Local politicians should make local citizens understand their tasks and convince them to keep staying in their home village. They should convince them that it is not good for a person or a family but it is good for the whole community. If a group is motivated by a good target staying in home village will be a natural, self sustaining process. Politics should make local politicians understand their mission. Their mission may be described as the enlightening of local residents. Politics should provide the necessary background of these enlightening functions.

8.3 Integration of cities with villages

Cities and their surrounding villages should be understood as an organic unit. Rural and urban settlements may not exist without each other. The integration of cities with surrounding villages, and locality are emphasized in this chapter.

In 1990 the establishment of the local government system enabled villages to bring decisions by themselves on their future. However there are several matters that cannot be decided locally. The recognition of the need for inter-settlement cooperation and thinking in settlement groups instead of thinking locally is the next step from here. The development of services and other activities mentioned in the earlier chapter is feasible only within a micro regional system. The European Union's policies are based on the coexistence of cities and their surroundings. In the European Union the relationship of cities and their surroundings is based on partnership and cooperation. If cooperation is set up between institutions only this will have a formal character only and won't work. Following the rules of formal procedures – determined by bureaucracy and institutional capital – it is the leaders of cities and villages who should initiate cooperation. They should establish partnership with the majors of another

settlements. They should convince the other partners that it is their programmes and ideas that are viable and worth for following.

Micro regional cooperation should cover the following areas:

- Industrial and other economic policies
- Agricultural policy
- Environmental issues
- Regional development
- Employment policy
- Social policy

8.4 Integration of rural society

In 1887 Ferdinand Tönnies formulated his famous ‘Gemeinschaft-Gessellschaft’ theory. This theory says that villages are typical *Gemeinschafts* (communities) while cities are *Gesselhafts* (societies). In a community people are in a sound relationship. A community is an organisation based on face-to-face relations. In a society the situation is different: although people set up their everyday communicational relations they live separately, everybody is left alone and there is a constant tension between the individual and the others. Tönnies’ theory was working for a long time in the Hungarian society until the 1960s. Up to this date rural communities strongly depended on agriculture and wealthy farmers were put as examples for the others who were followed by the majority of rural farmers. After the collectivisation this system did not survive.

In his survey in the early 1990s Andorka Rudolf came to the conclusion that occurrence of permanent poverty – the lowest level of subsistence – is almost seven times larger in villages than in Budapest. He also pointed out that rural population is in much lower mood than the urban.

Thus, the mood indicator of rural population is than the Hungarian average being also low. Pessimism and loneliness are the most dominant form of feeling in villages.

Today rural development is doomed to failure without the involvement and active cooperation of local residents but how can local society be more active without self-orientation, self-reliance, self-conscience and a strategy to tackle problems?

If someone has no job, no money and is defenceless, he or she cannot be activated until being given some opportunity to do something to live better. Even then, it is not sure he will really do something to turn better. Animation is invented to help people who are unable to help themselves. The meaning of animation here is community reactivation, in other words, giving life to something. The animator here is a group helper activating a group to find their identity.

With the animator's help group members can find their place within the community and society. The cooperation and common activity of group members will initiate changes in the group members' mind urging them to take the first steps to turn their life better.

Community development may take place on two levels. The first is the level of agitation. Here the means of propaganda may be used. The target group may listen carefully and agree with the speaker, the agitator. Then the personal involvement of local group members is required. Personal contacts should be established among group members.

The role of personal character has greatly increased in our world of hidden values. If someone wants to help the community from outside, he or she should have a strong personal character. He should believe in his programme making others feel that they will get real help to find their way out of crisis. He should create a group from local people who are popular and respected among the others. Through these group members positive live contacts may be established with the rest of community.

Thus, local community members should be the animator's closest assistants.

9 Hungarian rural development objectives

Hungarian rural development is targeted for rural economic development and the cutback of social disparities. To achieve these objectives rural development should carry out infrastructure development and human resource improvement projects.

1. The consequences of *agricultural modernisation* on rural economy should be assessed by a survey. In places where the survey shows adequate conditions agriculture should either be extensive or intensive (bio-gardening). They need capital and cognitive management. Financial assistance should be based on programmes and projects associated with programmes should be funded. The manufacturing of products looking back to long-time traditions should have priorities in funding on micro regional level. Investments of strategic importance, such as freshwater fishing, irrigation or forest planting projects should have priorities on regional level.

2. *The diverse development of rural economy.* The future of rural areas should not solely depend on agriculture. New sectors, new activities should be established in rural areas. The support of rural small enterprises, such as small-scale food processing, rural industry, basic services, commerce, rural tourism, investment and manufacture consulting, public information services should have priorities in development.

3. *Infrastructure development.* Although this is the area in which the greatest progress has been made since the political transformation the situation is still far from being appropriate. The development of public road and drainpipe systems will be an acute problem in rural areas for many years. The development of services strongly depends on infrastructure development. There is a large difference between the service need of native and middle class residents having recently moved to rural areas. This created a difficult situation for service industry investors.

4. *Human resource improvement* has strong relations with the three above-mentioned objectives. This includes the preparation of rural population for changes in their trading and enterprise activities and the risks they should bear in their business. People living in poor conditions have a feeling of inferiority. Gaining self-confidence should change this attitude. Responsibilities are shared in this field. Those having contacts with a large number of people (such as mass media institutions) have extremely high responsibility. It is a great threat that a large mass of communities are excluded from the European Union's economic policy if rural areas remain unfit for integration after Hungary's EU accession.

Finally, it should be emphasized that rural development in Hungary is lagging behind the transformation of the country's central and other advanced regions. It also seems sure that rural transformation will coincide with Hungary's EU accession. This is another potential source of conflict for rural population who have still not recovered from the shock of political transformation.

In the European Union the volume of rural development grants has a growing tendency. It is expected that the contribution Hungary will pay into the EU budget will be smaller than the grants Hungary will receive. A significant part of these EU grants will be allocated for regional and rural development purposes. However grants are not transferred automatically, they should be won by projects in a very bureaucratic system. It is also expected that the overall volume of grants will be lower at the time of Hungary's EU accession than now, so the competition for funds will be greater. Within this competition system Hungary should elaborate the most effective model of rural development.

10 The SAPARD Programme in Hungary

In 1997 the EU – regarding the enlargement with East European countries – made a decision on the establishment of preaccession funds. These funds are the PHARE, (Poland-Hungary Assistance for Restructuring the Economy) the ISPA (The Instrument for Structural Policies for Pre-Accession) and the SAPARD. The SAPARD on the one hand assists to the execution of programmes within

the framework of Common Agricultural Policy and its relevant tasks, on the other hand it is targeted towards tackling the primary and special problems of sustainable agricultural and rural development within the accession countries. The share of the East European countries from the EU preaccession grants varies from country to country (*Table 5*).

Table 5

The Share of East European Countries from the EU Preaccession Funds

Country	%
Bulgaria	8.0 – 12.0
Czech Republic	5.5 – 8.0
Estonia	2.0 – 3.5
Poland	30.0 – 37.0
Latvia	3.5 – 5.5
Lithuania	4.0 – 6.0
Hungary	7.0 – 10.0
Romania	20.0 – 26.0
Slovakia	3.5 – 5.5
Slovenia	1.0 – 2.0
Total	84.5 – 115.5

Source: Magyar Mezőgazdaság (Hungarian Agriculture) 1999. 32. p. 8.

The annual budget of SAPARD for the EU candidates is 520 million euros, which is funded from the EAGGF Guarantee fund (*Table 6*).

Hungary may expect 38 million euros between 2000–2006. This sum is given only in case Hungary has adequately prepared for the reception. (This sum may even double if Hungary is better prepared for the reception and utilisation of these funds than the other candidates.) The criteria of the distribution of funds among candidates is as follows:

- The share of agricultural population from the total
- The share of agricultural land from the total
- The GDP per head on calculated purchasing power parity
- The situation in the given country

Table 6

The distribution of SAPARD funds

Country	Value in 1999 (euro)
Bulgaria	52 124 000

Czech Republic	22 063 000
Estonia	12 137 000
Poland	168 683 000
Latvia	21 848 000
Lithuania	29 829 000
Hungary	38 054 000
Romania	150 636 000
Slovakia	18 289 000
Slovenia	6 338 000
Total	520 000 000

Source: Newsletter, 14 August 1999 EC DG VI

The planning and tendering system of SAPARD follows the system of Structural Funds. Payments, monitoring and evaluations follow the rules of EAGGF.

- To win the grants national plans of agriculture and rural development should be prepared and approved by the European Committee
- The preparation, execution and monitoring of programmes should meet the concrete requirements of the Structural Funds and should contribute to the transfer of the legal regulations of EU (acquis communautaire) with special regard to the Common Agricultural Policy.
- Co-finance is a must. The Hungarian government allocates a separate fund for financial assistance to national SAPARD programmes from the Hungarian side
- The approval and coordination system match with the regional programme of EU member countries
- The utilisation of grants should undergo a preliminary and interim analysis, a continuous monitoring and a subsequent evaluation process for the efficiency assessment of programmes and to see how the programmes have been realised.
- EU conform payment agencies should be established in candidate countries
- Candidate countries should submit an annual report to the European Commission until the end of the sixth month of the following year

The county level (NUTS III) and the regional level (NUTS II) sub-programmes of the Hungarian National Plan for the SAPARD programme were prepared by the middle of 1999 and they were followed by the preparation of the National Plan for SAPARD programme. Hungary's National Plan for SAPARD was submitted to the EU Brussels Office on 29 December 1999. The

Programme was proposed for approval by the STAR Committee, a committee for the evaluation of SAPARD proposals, on 13 September 2000.

With Hungary's SAPARD programme the proposals of five other countries (Bulgaria, the Czech Republic, Poland, Latvia and Slovenia) were approved. Although in Hungary the institutional system of SAPARD has already been established no agreements have been made on its accreditation and seven-year financial settlement. The agreements are scheduled for the first months of year 2001.

As only short time was available for the preparation of the national Plan for the SAPARD programme there was no time for building a bottom to top scheme starting from micro regional (NUTS IV) level ending with national level. Micro regional plans for the SAPARD programmes were prepared at a later time than the national one. The call for the preparation of micro regional projects was announced in April 1999. 192 local government associations or micro regions submitted their proposals. Because of the large number of applicants the Ministry of Agriculture and Rural Development approved all proposals. The proposals were categorised into 'A' 'B' or 'C' groups depending on their quality. The timing of their analytical, strategic and operative programmes was different.

Hungary's SAPARD Programme was prepared on the basis of tasks included in the SAPARD Decree (1268/99/EC). The tasks proposed by the Brussels administration were as follows:

1. Investments into agricultural holdings
2. Improving the processing and selling of agricultural and fishery products
3. Quality check, improving the conditions of animal and plant health checking system to increase food quality and to protect the consumer
4. Environment and landscape friendly agricultural production
5. Development and diversification of alternative business economies
6. Launching a temporary retirement programme for agricultural farmers and providing farm management services for them
7. Establishment of farmers' groups
8. Village modernisation and regeneration, the preservation of the material and intellectual heritage of rural areas
9. Land value increase and the modernisation of the agricultural land system (land property resizing)
10. The establishment and modernisation of the land property administration system
11. Improvement of professional training
12. Modernisation of rural infrastructure
13. Modernisation of the agricultural water management system

14. Forestry, including forest planting, investment into private forest farms, the processing of forestry products
15. Consulting, information on tasks included in this decree, preparation of studies concerning the preparation and monitoring of this programme, informing the public on events

On the basis of this list the 2349/1999 (XII.21.) Government Decree approved the following list of tasks to be supported by the SAPARD Programme in Hungary.

Hungary's Rural Development Programme SAPARD (The share of financial assistance to be given at the beginning and at the end of programme)

Agricultural tasks

1. Investments into agricultural holdings
2. Improvement of the processing and marketing of agricultural and fishery products (26–7.4%)
3. Improvement of vocational training (1.8–2.7%)
4. Agri-environment measures (3.7–7.4%)
5. Setting up producer groups (7.3–7.3%)

Rural development tasks

6. Renovation of villages (7.5–12%)
7. Economic activities providing alternative income (15–17%)
8. Improvement of rural infrastructure (11–15.5%)
9. Assistance to projects contributing to the operation of this programme (2–2%)

According to this concept, the development of agriculture will have a priority in the first few years of the seven-year programming period but in the second half rural development projects will receive higher grants.

Agricultural project proposals should be submitted to the county offices of the Ministry of Agriculture and Rural Development while rural development proposals should be submitted to the regional offices of SAPARD.

No geographical limits are to be set up against agricultural project proposals if the criteria of tender invitation are met but rural development proposals are accepted only from typically rural areas. They are in our case settlements with a population density below 120 per square kilometres.

The community support of SAPARD may not exceed 50 per cent in case of profit-oriented investments and may not exceed 75 per cent in case of non-profit projects. In both cases 75 per cent of grants is funded from the EU and 25 per

cent is funded from the Hungarian budget. The Ministry of Agriculture and Rural Development allocated 3.5 billion HUF for the funding of SAPARD projects from the Hungarian side. Although the call for SAPARD Programme was not announced by the European Union at that time, this 3.5 billion HUF was available through a tendering system for rural development investment projects (until 15 September 2000).

As SAPARD is a decentralised fund, the EU authorises candidate countries to use it by their own request but requires their supervision over the utilisation of grants. Brussels does only a final supervision. If it comes out that the evaluation of project proposals was not satisfactory the money received should be sent back to Brussels. If significant disorders are detected Brussels may stop funding the whole project.

Through SAPARD Brussels is going to prepare the ten preaccession countries for the adaptation of the Community's legal and funding system. This will enable them for integration after accession. However, there are four problems that may hinder the realisation of the objectives of SAPARD programme. They are as follows:

1. The annual sum of 520 million euros (38 million for Hungary) is very low. To illustrate this, in 2000 40920 million euros was given to 8 million farmers in the 15 EU member states (*Table 7*)
2. Due to the lack of own resources, SAPARD assistance will be given to wealthy farmers instead of the handicapped. It is the poorest that this money should be given to use for education, community development and some small-scale investment to start their own business.
3. SAPARD is mostly characterised by those things that have been excluded. They are those three tasks that are included in the rural development chapter of Common Agricultural Policy, such as:
 - Quality product marketing
 - Services for rural economy and society
 - Assistance to rural tourism and handicraft activitiesThese tasks may trigger endogenous local development. They are essential for the establishment and development of agriculture based rural economy.
4. SAPARD gives financial assistance to projects instead of programmes. Small independent projects will not generate overall development through a whole region. It would have been more reasonable if the European Union's Council had stipulated in the 1268/1999 EK SAPARD Decree that it is projects that should be funded. They should be such projects that ignite overall regional development.

11 Rural development in Hungary after the EU accession

In 1999 on the Berlin Summit of EC it seemed that Hungary would join the EU in 2002. Now it is obvious that this will not happen and even the exact date of the accession of the first Central European countries is still unknown. There are greater uncertainties about the European union's intention with the agricultural farmers of the new countries. Can they expect the same grants with those who are in countries joined to the EU at an earlier time? Or should they do with lower grants? The second question is so important that may almost decide the first one. The European Union seems to be uncertain to decide the exact date of the next enlargement because they do not intend to give the same grants to the farmers of the new countries with those being in the fifteen member states.

Hungary's present agricultural policy is very liberal compared to the policy of the EU. Foreign citizens are not allowed to purchase agricultural land but there are no restrictions for them to leasing, farming or working on Hungarian land. Several German, Austrian and other citizens of the European Union operate and manage farms on several thousand hectares in Hungary. On the EU side a new regulation came into force on 1st July 2000 on the operation of private business in the EU for citizens of associated countries. This regulation had the same text for all associated members recorded in the agreement of associated membership in 1991.

The agreement stipulates that from the middle of 2000 citizens coming from associated countries have unlimited rights to establish a private business through the European Union. Three businesses are excluded from this right. No citizens from the countries of associated membership may work as lawyers, bankers or farmers. They have no right either for land purchasing or leasing. (The reason is obvious: as farming in the European Union automatically receives serious grants, citizens from other countries are not welcome to receive such grants.) In these circumstances the European Union's demand against Hungary and other East European countries for the liberalisation of land purchase seems at least to be hypocritical. If someone says you may buy land but first you must live here but if you want to live here you must have a business license and if no business license is given for farming, this is practically a land purchase and land lease ban.

After Hungary's EU accession rural development in Hungary will primarily depend on agricultural development.

The EU budget for 2000–2006 offers limited opportunities for the integration of Hungarian rural development into the funding system of the EU (*Table 7*). The reason for that is that in the budget approved in Berlin in March 1999 two items were separated:

- Support for the fifteen members
- Support for the preparation of accession countries and for the Union's enlargement

In year 2000 45.6 per cent of the total budget will be spent on *agriculture*. In the following six years of the programming period this will increase to 49.1 per cent (*Table 7*).

Article 7 of the Berlin budget is about preaccession funds. These funds go up to 3.4 per cent of the total EU budget covering three areas:

1. Agriculture (520 million euro annually)
2. Structural funds of preaccession (1040 million euros annually)
3. PHARE (candidate countries) (1560 million euros annually)

These sums will be the same during the seven-year programming period. How much really is the annual sum of 520 million euros (38 million for Hungary)?

The total grant that all the candidates receive annually for the modernisation of their rural and agricultural system is only a little more than half of the grants Austria receives alone from the rural development funds of Common Agricultural Policy. Beyond these grants Austria receives direct payments and other agricultural grants from the EU.

From 2002 the EU budget will be extended by a separate fund under the title of *preaccession funds* to cover the enlargement costs. It is a sum of 45 billion euros (for the period between 2002–2006). It is not clear yet how many countries this budget will refer to. Three countries will surely be in the first round but also may be that all the six countries of the Luxembourg group (the Czech Republic, Poland, Hungary, Estonia, Slovenia and Cyprus) will receive this fund. Hungary is obviously in the first group of accession candidates. The enlargement funds include two headings:

- Agriculture
- ther expenses.

Table 7

*The financial budget of the fifteen member countries for the period 2001–2006
(Million Euro on year 1999 value, financial commitments)*

	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	40 920	42 800	43 900	43 770	42 760	41 930	41 660
Common Agricultural Policy (without rural development)	36 620	38 480	39 570	39 430	38 410	37 570	37 290
Rural development with relevant tasks	4 300	4 320	4 330	4 340	4 350	4 360	4 370
2. STRUCTURAL POLICY	32 045	31 455	30 865	30 285	29 595	29 595	29 170
Structural Funds	29 430	28 840	28 250	27 670	27 080	27 080	26 660
Cohesion Fund	2 615	2 615	2 615	2 615	2 515	2 515	2 510
3. INTERNAL POLICIES	5 900	5 950	6 000	6 050	6 100	6 150	6 200
4. EXTERNAL ACTIONS	4 550	4 560	4 570	4 580	4 590	4 600	4 610
5. ADMINISTRATION	4 560	4 600	4 700	4 800	4 900	5 000	5 100
6. RESERVES	900	900	650	400	400	400	400
Monetary reserves	500	500	250	0	0	0	0
Emergency reserves	200	200	200	200	200	200	200
Guarantee reserves	200	200	200	200	200	200	200
7. PREACCESSION FUNDS	3 120	3 120	3 120	3 120	3 120	3 120	3 120
Agriculture	520	520	520	520	520	520	520
Preaccession structural funds	1 040	1 040	1 040	1 040	1 040	1 040	1 040
PHARE (candidate countries)	1 560	1 560	1 560	1 560	0 560	1 560	1 560
TOTAL COMMITMENT	91 995	93 385	93 805	93 005	91 465	90 795	90 260
TOTAL PAYMENT	85 590	91 070	94 130	94 740	91 720	89 910	89 310
<i>Total payment in the percentage of the GNP of the 15 members</i>	1.13	1.12	1.13	1.11	1.05	1.00	0.97
ENLARGEMENT SUMS (payments)			4 140	6 710	8 890	11 440	14 220
Agriculture			1 600	2 030	2 450	2 930	3 400
Other expenses			2 540	4 680	6 640	8 510	10 820
TOTAL PAYMENT	89 590	91 070	98 270	101 450	100 610	101 350	103 530
MAXIMUM							
<i>Total payment maximum in the percentage of the GNP of the 15 members</i>	1.13	1.12	1.18	1.19	1.15	1.13	1.13
<i>Available sum after payments in the percentage of the GNP of the 15 members</i>	0.14	0.15	0.09	0.08	0.12	0.14	0.14
<i>Own resource maximum in the percentage of the GNP of the 15 members</i>	1.27	1.27	1.27	1.27	1.27	1.27	1.27

Source: Presidency Conclusions, Berlin, European Council, 24–25 March 1999, Table A, p. 26.

1.6 billion euros are allocated for agricultural and 2.5 billion euros are allocated to cover other expenses in year 2002 (This is 6.6 per cent of the EU budget in year 2002). These sums gradually increase in the next four years. 12 million euro will be spent for agriculture and 33 billion Euro for other costs in the next five years. From the enlargement funds the share of agriculture is 27 per cent while other costs take 73 per cent of the budget. At the same time Common Agricultural Policy (without rural development) will receive 40.1 per cent of payments within the 15 member states. This means that at the present situation – from the point of agricultural grants – *the EU is not going to treat associated countries as equal partners*. It would be reasonable to change this situation – for example by the Hungarian delegation during the EU accession talks – otherwise the European Union will have two categories of farmers: first class and second class. This does not fit into the European Union's basic principles.

12 Summary

In Hungary the disintegration of the traditional peasant society took place in a very short time. Within twenty years (1950–1970) the rate of agricultural farmers decreased from 50 per cent to 25 per cent. This process was accelerated by the Soviet type collectivisation. Nevertheless, Hungarian agriculture was successful in the socialist era. The country's geographic soil and climatic conditions turned Hungary a major agricultural producer among CMEA countries. Letting farmers maintain their private farms if wanted was the greatest merit of Hungarian socialist agricultural policy. Several farmers used this opportunity. Part-time farming needed no (or very small) investment but heavy work. Farmers were told what and how should be produced and the goods they made were purchased. The income they earned created a feeling of social security, which was lost after the political transformation. With the loss of income farmers completely lost their self-reliance. They could do nothing but sell or lease their land. Only a small group having qualifications, good contacts and some venture capital enabling them to start their own business could turn to be the winners of privatisation. The rate of agricultural farmers has dropped by fifty per cent, which increased unemployment because the majority of rural workers were employed and had no private business. Rural development should have the objective of teaching villagers to be and think as a businessman.

In the last ten years a large migration started to rural areas. Both the urban middle class and the urban poor escaped to villages. At the same time a large number of village cottages was purchased by foreigners in recreational areas, and in quiet out of world places.

The efforts Hungarian governments have done so far for rural development since the political transformation were insufficient for triggering economic development. The growth of disparities made the majority of Hungarian villages feel as losers. The improvement of this situation is the major task of Hungarian agricultural and rural policy. It is very important that Hungarian villages were able to join the European Union as winners in a situation when the shocks of political transformation are still alive.

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