

AGRICULTURAL RESTRUCTURING IN HUNGARY AND ITS SOCIAL IMPACTS

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INTRODUCTION

This paper¹ considers the still on-going agricultural restructuring in Hungary. The first part of the paper focuses on a retrospective analysis of the most important characteristics of the privatisation of land and non-land assets. The second part reports on the present stage of restructuring based on the latest statistics and within the context of earlier debate on predicted outcomes for farm structure. This section also addresses the social impacts of restructuring. Before embarking on the main discussion, however, it is necessary to provide some information about the current state of agricultural development, in order to establish the context and aims of the restructuring process.

In sharp contrast to the dynamic growth of the services and processing industry sectors (with the exception of food industry), *no real regeneration has taken place in agriculture. This means that the volume indices of agricultural GDP have remained under 75 per cent of their 1989 level.* Following the first dramatic fall, reaching a low point in 1993 at little more than 60 per cent of its 1989 performance, a moderate growth began in the crop sector in 1994, whilst stagnation and further decline has prevailed in livestock sectors since 1992. In 1999, agriculture produced 6.2% of GDP and 8% of exports, 7.1 % of employment and 3.3 per cent of investment.² These figures represent half or one third of those recorded for pre-transition times.

1 I would like to thank Nigel Swain for reading, commenting on and improving the English of this text.

2 *Mezőgazdasági évkönyv [Agricultural Yearbook]* (CSO, 1999).

THE METHOD OF AGRICULTURAL RESTRUCTURING: THE HUNGARIAN PRIVATISATION

The Privatisation of Land

As in other post-socialist countries, Hungarian policies on land restitution and property de-collectivisation have resulted in a fragmented property structure, where property and land is often used inefficiently and inappropriately. This was an inevitable consequence of the fragmented pre-socialist farm structure, which influenced the emerging new system, despite the attempts of policy-makers to counter its effect with a unique voucher scheme of tradable and exchangeable vouchers. When land privatisation was at stake, Hungary opted for compensation rather than restitution. To some extent, the shape of land ownership in the country ‘forced’ this decision, as only one third of landed property was legally owned by its former proprietors, while another small fraction of agricultural land belonged to the state, but the rest, – the majority was the indivisible property of a cooperative. Its former owners had been prevented from exercising their rights prior to 1989, when the last socialist government amended the land law and restored property rights almost fully. This was the unprecedented situation that the first, right-wing, democratic government had to tackle in 1991-1992. However, this government was also rather moderate in its political style and *preferred to avoid radical solutions*, which was probably another motive in their rejection of full and direct restitution. Major elements of the transformation legislation, such as *the aforementioned voucher scheme* and *the small plots (one-hectare on average) that landless cooperative members were granted* secured a smooth land privatisation with few disruptions.

To add to Swain's categories (Swain 1994), the land privatisation was not only *partial* (because in addition to an upper limit, a digression key was applied), *indirect* (because the beneficiaries received financial instruments and not the property that they had lost) and *universal* (because all forms of loss were treated similarly) in Hungary, it was also rather *market-friendly*. This feature of market conformity was particularly noticeable in the

institutional framework of land compensation, the land auctions for example and the “exchange schemes” which were offered as alternatives to land purchases.³ The access to compensation vouchers at public markets ensured that these vouchers penetrated other branches of the economy: for example, the management of industrial firms assigned for privatisation could use compensation vouchers in order to help convert their managerial position into an ownership position (to mention just one example with sociological relevance). This was possible because under special schemes, compensation vouchers could be accepted by the state privatisation agency, and thus the price of the assets could be reduced considerably, if the management was clever and/or lucky enough to buy vouchers at a good price. This integration of compensation vouchers into everyday economic life and ordinary people’s transactions also helped to reduce the “mystery” of landed property, at least, to some extent, when one could exchange vouchers for vacuum cleaners, carpets, and refrigerators in some shops (for example in the Budapest IKEA). Another important factor was that *pressure at land auctions was considerably lessened* by these alternative uses for compensation vouchers, which was particularly helpful in cases where there were at least two parties with justifiable claims to the same piece of land.⁴

Of course, many difficulties and local conflicts emerged during land privatisation. In fact, the process has not yet finished in some of the most sensitive localities, where the value of land has more to do with speculative investment (this usually

3 Compensation vouchers could be traded on the Budapest stock exchange and could be used to buy stocks of industrial firms and banks assigned for privatisation as well as to purchase, for example, one’s own council flat. Cooperatives that received these shares at auctions as a means of exchange, could also sell their vouchers on the stock exchange and many did so when the price was 80% of the face value or more (usually when there were rumours of privatisation campaigns where people could pay with vouchers).

4 Where, for example, once expelled but later returned minority German families were bidding against Hungarian neighbours who had been expelled from Slovakia and settled and are now living in the same village (See: Kovács 1998a).

occurs in the potentially lucrative areas, e.g. the fringes of Budapest's suburban zone, see Váradi 1999). Conflicts arose, for example, when the delay in issuing compensation vouchers to claimants prevented them from bidding at the first auctions and thus gaining access to the "best, the most desired land".⁵ Land shortages don't just happen in leisure and suburban areas, but also in the ordinary rural centres where there was intense immigration and where agriculture plays a decisive role in the livelihoods of the local population.⁶

Nevertheless, the relatively swift completion of the process and the market friendly elements included within it, meant that Hungarian land privatisation was more or less a success. Critics emphasise the possibilities for the misuse of the voucher systems. There were particular concerns over the possibility that foreigners could gain ownership of the vouchers by means of 'pocket-contracts' in the Western territories of the country. While abuses undoubtedly occurred, they had little to do with the voucher scheme itself, and much more to do with the exclusion of foreigners' and corporate farms' from the land market from mid-1994 onwards which inevitably pushed such deals into the "black zone". The ban on foreign and corporate deals was understandable to a certain degree, given that without such a ban, individual farmers would be unable to compete and would be soon squeezed out of the land market. A moderately intense land market developed after 1996, when the first parcels bought at auction became tradable,⁷ although it was greatly affected by local conditions, such as the alternative sources of livelihood offered by off-farm sectors, geographical location, and the tourist and economic potential of the district, etc. In addition to the

5 See the Hollóföldje case, Kovács 1998a.

6 This was the case in Karikás (a pseudonym), a market town with 27,000 inhabitants located in the Hungarian Great Plain where newcomers moving in from the neighbouring villages bid at town auctions. It was also due to the fact that not only those appeared at auctions whose vouchers compensated for a lost landed property but also those who lost factories or buildings were entitled to bid for land.

7 The law imposed severe tax penalties to discourage the sale of land within three years of its purchase at a compensation auction.

economic importance of farming in a given area, these factors determine most owners' emotional and "materialistic" relationship with their land, whether they insist on keeping their parcel because it is an insurance, offering the possibility of retreat to subsistence farming or because it is a major source of additional income, or a safe portfolio investment for the next generation. (See the second part of this paper.)

The Privatisation of Other Property in the Agricultural Sector

Despite the success of land privatisation, the privatisation of other non-land assets is more controversial. This discrepancy between the privatisation of land and other forms of property appears to be a common flaw in the de-collectivisation process throughout East-Central Europe (Rabonowicz and Swinnen 1997), and the consequence of objective, structural difficulties. The voucher schemes which were widely used for the distribution of non-land property were much more limited in the options they offered for exchange, and therefore stimulated the market to a far lesser degree. (Kovács 1998b). Identifying just claimants was also a rather complicated issue. The Hungarian "solution" set a wide criteria for eligibility, and, in addition to active and retired cooperative members, also admitted those who had once contributed labour to the cooperative. This created a group of so-called "outside owners" with partial ownership rights, as distinct from the group of owners with voting rights on the general assembly.

For landed property, where most countries had legal property rights, determining what should be returned was relatively unproblematic. However this was not generally true for other forms of property. Four decades after forced collectivisation, the original contribution to the collective farm assets was impossible to evaluate accurately. For example, as a result of the modernising efforts of the last socialist government, new John Deer tractors (co-financed by World Bank credits), were waiting in many cooperative yards to be divided amongst the beneficiaries. Paradoxically, these credits pushed many farms into liquidity crises when inflation increased and interest rates skyrocketed. A further paradox was that debts had to be divided

too, within the same circle of beneficiaries, which didn't prove to be any easier than sharing a John Deer tractor.

Although the business shares offered by cooperatives shared similar positive elements with compensation vouchers – such as market conformity, tradability as soon as they were issued, and state support schemes linked to them as incentives aimed at stimulating an influx of external investment between 1994 and 1998 – the way in which the system worked did not meet mass social equity expectations. In retrospect, it is easy to see that when general meetings of transforming cooperatives discussed control over property on the basis of joint ownership, social equity expectations were implicit, at least in the heads of most ordinary members. Those who stayed with the cooperative, and the vast majority stayed, would have liked not only to maintain whatever the cooperative had offered to them in the past (employment for themselves or their children, a basis of social assistance, “a community of once-a-year stew eaters” etc.) but also an improvement in the services of the cooperative, and an end to their leaders' arrogance and the patronising attitudes that went hand in glove with the advantages of the socialist era. They dreamed of “partnership” but their experience was very different.

The crowding out of ordinary members from the ownership of non-land assets, – because this is what has happened in many successor farms – could have been sociologically predictable. What blurred the picture, however, was a lack of experience which brought about a widespread overvaluation of business-shares as real securities. Experts as well as ordinary cooperative members tended to believe what they wanted to believe, namely that these securities would serve as means of ownership control. It was from this perspective that the distribution of the assets was criticised and immediately after the first round of de-collectivisation worries were expressed about the majority share of retired members (Juhász and Mohácsi 1993). Later events proved that business shares functioned as an *excellent means of transformation* in the sense Rabonowicz and Swinnen recommend using the term, that is farm restructuring according to market principles (Rabonowicz and Swinnen 1997). They ade-

quately *assisted the process of asset appropriation, or to put it bluntly, the concentration of property* in the hands of the few. It might sound overstated but one is tempted to draw a parallel between the post-socialist appropriation of agricultural assets and the second enclosure in 17th-18th century England. The outcome of what has taken place in rural East-Central Europe is something very similar at least, and neither the “observer”, even less the participant loser, can be consoled by the lack of viable alternatives.

THE RE-SHAPING OF FARMING STRUCTURES AND ITS SOCIAL IMPACT

One of the more remarkable aspects of the Hungarian restructuring of farming units, is its consistency and the efficiency of the structuring forces. Essentially everything had been achieved by 1995. Since then all that has happened is that the processes which force the old players to change and set the new players on their new paths have reached their completion. The data suggests a gradual but efficient adaptation to the market, which has probably been of greater significance than the legislation passed to achieve the transformation.

Transforming Large-scale Units

Although there is a clear tendency for the large-scale sector to shrink and for the small-scale sector to grow, economies of scale still prevail in Hungary – particularly in the western part of the country –, as a result of rental schemes. The large or medium-scale successor units, however, do not have an equal chance for survival. Two trends have become apparent from 1994 onwards, (i) *a shift from cooperative farming towards company farming* and (ii) a concentration of property ownership, both of which have been slowly but steadily reshaping Hungarian farm structures. These processes are major components of a *secondary transformation* of former collective farms as they begin to adopt market principles. The data is convincing: the percentage of companies controlling the tangible assets of agricultural corporations grew from 4.5 per cent to 30.3 per cent for

limited liability companies, and from 5 per cent to 18.7 per cent for joint stock companies from 1992 to 1997, whilst the cooperatives' share dropped from 77.4 per cent to 51 per cent.⁸ This was a spontaneous adjustment, and has been sustained, in sharp contrast to the top-down government interventions, particularly evident when conservative governments took over in 1991-1994 and from 1998 onwards.

It is important to note that both these trends are related to the structural weaknesses of cooperative successors. These corporate farms inherited over-employment and a distorted system of property-control from the socialist past, and despite massive cut-backs in employment (the number of staff in an average successor cooperative dropped from 128 to 48 between 1992 and 1997), political hostility was a further burden at an already difficult time for these farms, a hostility which was noticeable both in the transformation legislation in 1991-1992 and even open threats against what remained of cooperative property from 1998.⁹

8 Data of double-entry book keeping companies, and cooperatives with agricultural income.

9 Right after the conservative parties won the 1998 elections they expressed their will to change the cooperative law so as to allow access to property in kind once again to owners' groups, which had failed to appear amongst secessionists in 1992-1993. The Smallholders' Party, a single-issue "peasant party" had always been against the new cooperative law that secured stability for the transformed cooperatives by excluding the possibility of taking out further property in kind. What they objected to was the "manager buy-out," that started prior to transformation, but speeded up remarkably from 1994-1995. The chairman of this party headed the Ministry of Agriculture and Regional Development from mid-1998 to March 2001. This is a position that obviously secured advantages for the realisation of the political preferences of the Smallholders' Party. The new law, issued in 2000 was, however, less ambitious and restricted its preferences to one single group of owners, that is the "outside owners" already introduced. This group had been recruited from heirs of former members and those who did not belong to the rank of members during the compulsory transformation in 1991, but had contributed labour to the cooperative prior to the date set by the law. Many controversies had emerged related to this group of owners which explains why the government addressed them. On the one hand, the transformation legislation granted property in business shares to the members of this group

Land-use data shows the decline in the importance of successor cooperatives more realistically. According to the 1999 land-use registry data,¹⁰ full-time and part-time individual farmers registered 12 per cent and 29.8 per cent of arable land respectively (41.8 together), whilst cooperatives used 1,100,077 hectares, 29.8 per cent of the registered arable land, 2.5 per cent more than limited liability and joint stock companies together. Here we use only the data from the arable land registry, because arable land was the most reliably and extensively registered (3,705,375 hectares, 85 per cent of the country's arable land). The remaining part, some 654,000 hectares of arable land was used by hundreds of thousands of small-scale producers who did not register at all because they farmed their little parcels for self consumption or selling in very small quantities.

Registration was important for those producers, small or large-scale, who wanted to qualify for state subsidy of any kind (area-related and investment grants, preferential interests to loans, etc.), or for credit schemes. Therefore, although they were not

but deprived them of control over the property when it did not allow them to vote at meetings. On the other hand, this was the group of owners that grew the fastest in number: all the heirs of the deceased full-right members are continually being added to this group. Although the law issued in the end of the year 2000 did not solve the latter paradox, it tried to solve the former by compelling cooperatives to pay outside owners off in cash. The price that agricultural cooperatives were supposed to pay, was set high, the face value of business shares at a time, when the market value of these shares ranged from 10% to 40%. Those concerned could register on a list collected via the extension offices of the Ministry. In April 2001, one day before these lists were to be closed, the Constitutional Court ruled against the law. It was argued that market economy did not allow such rude intervention into the inner affairs of any economic player. The law hurt fundamental property rights and the integrity of cooperatives. The government soon came out with a new proposal suggesting that the claims of outside owners would be covered from the state budget. It was decided to use income gained from selling what remained of state farms for this purpose. This story reveals a lot about the still rather bitter struggle over former collective property, almost a decade after the years when the bulk of the transformation was completed (in 1992-1993).

10 1999 was the first year when producers had to register the land they worked if they wanted to acquire any kind of state support.

Table 1. Registered Arable Land by Users in 1999

	Non-corporate and corporate producers registering arable farms						The distribution of non-corporate and corporate farms by farm-size			
	Full-time non-corporate farmers*	Part-time non-corporate farmers**	Co-operatives	Companies (Jsc +ltd)	Together	below 5 hectares	Between 5-20 hectares	Between 20-100 hectares	over 100 hectares	
	Registered producers in heads/numbers						% of farming units in the total of registered units by farm size			
National Total	20 696	120 303	1 887	4 398	147 916	40.8	47.6	7.3	4.3	
West Transdanubia	1 941	9 435	155	374	11 954	34.9	53.4	8.1	3.6	
Central Transdanubia	1 436	9 298	106	294	11 171	34.2	52.8	9.6	3.4	
South Transdanubia	2 058	12 531	151	536	15 346	31.4	55.4	9.7	3.5	
Central Hungary	998	4 168	58	226	5 465	29.3	56.0	10.6	4.1	
North Hungary	1 146	9 875	146	348	11 557	37.0	49.8	9.8	3.4	
North Great Plain	4 164	44 632	202	761	49 906	51.6	41.9	5.4	1.2	
South Great Plain	8 267	29 123	197	556	38 349	41.1	50.1	7.1	1.6	
	% of farm categories by farm types in the total of registered arable land						% of farm-size categories in the total of registered arable land			
National Total	12.0	29.8	29.7	27.2	100	4.3	22.8	11.8	61.1	
West Transdanubia	12.3	22.3	38.5	26.3	100	2.7	19.1	9.9	68.2	
Central Transdanubia	11.7	22.5	26.7	38.7	100	2.4	16.7	10.2	70.7	
South Transdanubia	9.7	22.6	32.6	34.0	100	2.1	17.7	10.1	70.0	
Central Hungary	13.6	24.8	26.5	34.3	100	2.2	19.2	11.6	66.9	
North Hungary	10.0	28.9	39.0	21.6	100	2.8	19.4	12.5	65.3	
North Great Plain	10.4	41.5	23.4	22.8	100	8.3	29.5	12.7	49.5	
South Great Plain	10.5	32.8	27.3	21.8	100	5.2	27.1	13.2	54.5	

* Full-time producers and full-time registered farmers together ** Part-time producers and part-time registered farmers together.
Source: Land Registry, Ministry of Agriculture and regional Development (MARD) 1999.

encouraged by preferential payments of area-related subsidies¹¹ like small-scale farmers, large-scale producers were over-represented among those registering, partly because this is the sector where large-scale farms predominate, partly because they were not able to survive without the assistance of financing institutions.

There was considerable regional variation in the above data in terms of both farm size and farm type. In the Central region, which comprises the capital city and the largest Hungarian county (Pest), the proportion of very small holdings of less than five hectares was only 29.8 per cent, and full-time, small-scale farmers achieved their largest share of arable land use at (13.6 per cent). The Northern-Great-Plain region suffered most from the fragmentation: here 51.6 per cent of the holdings were dwarf farms, consequently the largest share of arable land was used by part-time plot-farmers (41.5 per cent). While in the Transdanubia regions, the share of this group of land-users ranged only between 22.3 and 22.6 per cent, somewhat more than half of the figure for the North East.

Large-scale farming seems to have been losing out rather dramatically in Hungary although the extent of this has been modest compared to countries embarking on more radical restitution methods such as Lithuania and Latvia from among the Baltic states, and Romania and Bulgaria from south-eastern Europe. Rather than deconstruction, what prevailed in Hungary were the related processes of size-reduction and an accommodation of market relations. The exceptionally severe bankruptcy law, which came into force in 1992, guaranteed the quick

11 In 1999, those who farmed less than 20 hectares received 12,000 HUF per hectare, those having 20 to 50 hectares of arable land received 10,000 HUF per hectare, those with between 51 and 300 hectares received 8,000 HUF/ per hectare area-related subsidy while farms over 300 hectares were not eligible to this kind of support. These figures have changed somewhat in the subsequent years but the criteria for eligibility have remained consistent. The different amount of area-related premiums did not distort registering towards the small-scale extreme, however, it might have caused distortions within the various categories of small-scale farms, but this is less likely in the below 5 hectare category.

Table 2.
Changes in the Structure of Individual Farm Holdings 1994-2000

Years of registering	The Number of Individual farms			
	total	below 5 hectares	5-10 hectares	over 10 hectares
2000	958534	775433	43917	139184
1994	1201015	1147669	31566	21773
2000/1994 (%)	80	68	139	639

Source: *Agricultural Censuses 1994* (Budapest: CSO, 2000).

disappearance of the bulk of the loss-making units. The threat of this law, followed by an open pro-accumulation policy in the form of providing personal income tax allowances for business-share investors, and, finally, the most recent, failed intervention attempt (see footnote No. 9) speeded up the structural adjustment process within the large-scale sector, and resulted in *a more medium than large-scale size corporate farm structure* on the one extreme, an emerging *small-scale commercial farm* category in the “lower-middle,” and some eight to nine hundred thousand *plot-farms* on the other extreme, providing mainly subsistence or an additional source of income for their owners.

An Emerging and Differentiating Small-Scale Farm Sector

This section of the paper discusses the same processes, but puts the emphasis on the small-scale end of the continuum. The latest data from the 2000 agricultural census will be used. Unfortunately the small amount of data published so far adds little to what we already know about the subject. The most important piece of information is revealed clearly from a comparison with the latest census in 1994.¹²

12 The 1994 agricultural census was not a proper census in the strictest sense of the word as it was aimed at registering the new ownership relationships and tenancies. However, with the exception of land-users within a built-up area of settlements, each producer was registered.

The above table clearly shows that the number of “individual farms” (those reaching the required size category of “holding”),¹³ is shrinking considerably: the extent of this decrease is 20 per cent nationally, a very rapid decline given the short time-period of six years, indicating that some 250,000 people stopped cultivation. The closer look at the table suggests that it is dwarf farming which generates this drop (372,236 plots less in 2000 than in 1994), all the other categories are growing. The tendency, according to which very small holdings either withdraw for a garden-level cultivation or grow to the next category on the basis of land purchases or leases is to be welcomed. In other words, data reporting on *an emerging and already rather strong commercial farm sector*. The other side of the coin is, that the number of units smaller than a “holding” also grew quickly, an increase of 362,193 from 1994 to 2000, when 835,617 such “mini-plots” where commodity production either did not exist, or existed to a limited extent, were registered. To sum up: although there are still very many small farming units, so called “holdings” in Hungary, there seems to be significant forces at work which lead or coerce those who are *unable or unwilling to run even a small amount of territory to quit, while the small-scale commercial farm category is getting stronger*.

Unfortunately, nothing has been published about ownership and leasing relations in agricultural census.¹⁴ However, data provide a more precise view about the share of individual farming in various production branches and in the value of production indicated in the below tables.

13 A farming unit meets the criteria of a “holding” if its productive land territory reaches the 1500 m², or its orchard or vineyard is at least 500 m², or at least one large animal is kept (cow, horse, pig, sheep, goat), or 50 head of poultry, or 25 rabbits, or 5 families of bees, or it provides machinery services or was involved in intensive gardening for at least 18 months prior to the census.

14 According to the spreading hints, major proportion of land “is missing” from the registry which seems to be a realistic assumption: ownership is still something to be hidden as part of tax evasion strategies, so are the rents.

Table 3.
The Share of Individual Crop Farms in Land Use by Categories, 2000 (%)

	Arable land	Orchard	Vineyard	Grassland	Forest	Total
Central Hungary	43.8	42.4	58.5	36.0	19.4	37.5
Central Transdanubia	36.4	46.2	80.3	39.9	11.1	32.4
Western Transdanubia	39.0	59.6	91.6	42.1	14.1	31.1
Southern Transdanubia	36.2	63.8	74.3	47.7	15.2	32.3
North Hungary	46.6	70.4	92.6	53.0	8.0	33.5
North-Great Plain	57.4	82.2	89.0	44.9	22.1	51.6
South Great Plain	55.9	82.8	94.2	57.9	22.4	52.4
Total	47.1	71.0	86.7	48.0	14.9	40.5

Source: *Agricultural Censuses 1994* (Budapest: CSO, 2000).

Table 4.
The Share of Farm Categories in the Production Value, 2000

	Individual farms	Corporate farms	Total
Number of farms	958534	8382	966916
Production value per farm (million HUF)	0.5	73.7	74
Total production value (million HUF)	504558	617358	1121917
Proportion %	0.45	0.55	100

Source: *Agricultural Censuses 1994* (Budapest: CSO, 2000).

This data has been corrected by a 5-10 % downward adjustment based on earlier statistical estimations about the proportion of individual land use,¹⁵ suggesting that it still has not spread to one half of the productive land. The weight of small-scale farming in terms of production value is similar (45%).

The livestock figures, however, reveal *the gravity of the agricultural crisis* in Hungary, which has remained *sector-neutral*: compared to the 1994 figures, the share of small-scale participation grew moderately in the case of sheep and cattle/beef production (sheep-farming was the first to shift to small-scale

15 The various tricky combinations of land use with contract work has been described in case studies (Kovács 1998a, Váradi 1998).

Table 5.
The Share of Individual Farming in Animal Breeding, 2000 (%)

Regions	Cattle and Beef	Pig	Sheep	Poultry
Central Hungary	33.4	59.8	87.0	76.5
Central Transdanubia	19.2	30.2	60.5	27.9
Western Transdanubia	28.2	63.2	80.6	62.4
Southern Transdanubia	22.9	40.3	93.1	63.8
North Hungary	35.0	59.4	76.5	72.3
North-Great Plain	38.7	50.1	79.5	64.3
South Great Plain	40.5	57.7	85.1	66.5
Total	32.2	49.9	80.2	59.1

Source: *Agricultural Censuses 1994* (Budapest: CSO, 2000).

farms) but dropped in case of pig and poultry, from 53% to 50% and from 70 to 59% respectively. *In both cases, the year figures for 2000 were below the pre-transition level.* Two somewhat interrelated factors have been at work. On the one hand, live-stock production was the agricultural sector that was incapable of making any form of recovery from its low point and stood, in 1999, at 65% of its 1990 level (as opposed to cropping which had achieved a somewhat higher percentage at 84%). On the other hand, the lack of enthusiasm for continuing with pig and poultry farming is connected to the end of “integration,” which was the delivery of feed-stuff and the provision of transport and marketing services, generally organised by the collective farm, which was particularly important in poultry production. This was widely reported by surveys and there have been studies which focus on these two areas of production (Laki 1997), while as yet unpublished case studies foresee the future decline of dairy and beef farming in the small-scale sector (Váradi 2001).

When trying to predict the future course of the winding path of agricultural restructuring in terms of farm structure, it still seems likely that the wide variety in the size and nature of farms will be maintained. The producer cooperative with its confused property relations is the only current player in agriculture which may cease to exist in the future. The process of organisational transformation will be speeded up in the near future, and company forms will become dominant. The other farm categories

look to be viable for the foreseeable future. Closer examination, of course, will identify differences between, for example, three joint stock companies with various historical pasts (state-farm, cooperative, and genuine, developed from grassroots) in terms of their different “working culture”, but, nevertheless, they will all operate as proper capitalist large or medium scale farms. (The tendency towards shrinkage will continue over the next five to ten years.) As far as sole producers are concerned, their speed of proliferation will surely decrease, but the number of viable small-scale farm will probably grow in the next decade, creating a “farmer class” in rural Hungary. (They number about 140,000 today.) The prophecies of those who, when analysing the first phase of transformation, predicted the stabilisation of a mixed structure of farming seem to have come true. (Csáki and Lerman 1998, Kovács 1998c, Swain 1999)

Paths to Non-corporate Farming

The relative winners were highly ranked managers who were successful in saving the integrity of the successor farm that they managed (which was an achievement in itself given the adverse economic environment), and in addition to this, acquired substantial ownership positions; or they broke away in time and have by now built up their businesses from the grassroots into medium-sized farms of several hundred hectares. Those who managed to break away in time, in the first round of transformation, could be considered the winners, the people who escaped the worst, compared with the losers, those who lost their jobs in the cooperative as well as their business shares, either because they sold them at a very low price or because the cooperative was wound up. The first group of people were those who managed to take their property shares *in kind*, an opportunity which disappeared once the cooperative had been transformed (by December 1993 at the latest). The group of secessionists was mixed, evenly split between those who just wanted to make ready-cash from the pair of cows that they were entitled to, and those who were determined to re-establish a family farm enterprise or other kind of farm business, and thus carefully selected the pieces they desired from the reserve available for those who wanted to secede.

Not all of the former cooperative members of this latter group were able to achieve their ambitions to be sole producers in the new era. Those who left the cooperatives in 1992 and took their property out with the intention of farming were forced to face the fact: their holding was too small and the assets that they had taken from cooperative was insufficient for the task, due to age, and their value already fully depreciated; they could not acquire any more machinery from the cooperative, but nor could they buy any new because it would cost the equivalent of many years' production, or, were they to try to buy new machines with state support, they could not get a bank loan because they had nothing to offer as security. What they brought with them in experience from pre- and late socialism (traditions of peasant and socialist subsidiary farming) were only of partial use, due to the structural crisis in agriculture and because the requirements necessary for operating a modern farm (scale, finance, machinery) could only be generated by a few of them. State resources could not compensate for the absence of personal resources, because the change in the structure of agriculture was not supported by any injection of capital. The position of those starting again, or starting from scratch, was further hindered by the fact that in Hungary there has been little co-operation between private farmers.

Only a small section of rural communities, typically those *who worked in the second echelon of cooperative management and also had a well-to-do peasant background, succeeded in establishing viable farms*. They were usually aided by a common strategic decision within the larger family. They were well informed and the first to take all the necessary steps in the implementation of the transformation process. It's possible that they were well-informed, either because of their prominent position in the cooperative, or because they had become involved in local politics, perhaps as elected members of the local council. Thus *former well-to-do families were able to reinforce their position in the new local elite* (Thelen 2001). On rare occasions, stubborn old peasants also managed to acquire larger land holdings in order to re-establish their family farm enterprise for their own sake and that of the next generation. Land auction

prices allowed bidders in Hungary to acquire two or more times more land than the original family property, so allowing them to achieve a viable farm further enlarged via land purchases (See: Harcsa, Kovách and Szelényi 1998, Swain 1996). In addition to the former and present managerial groups, only tractor drivers got a reasonable chance to start a new business, as machinery services enterprises in regions where successor cooperatives collapsed. (Kovács 1998c)

One might ask if there are any proper farmers or real farms in Hungary? The answer to these questions was suggested unintentionally in the previous section; those, using more than 10 hectares of land in the year 2000 could probably be considered “farmers”. The number of producers in this category according to the Agricultural Census (139,184 people) is similar to the data of sole producers registering arable land in 1999 (140,999 persons). However, this is probably an optimistic unsubstantiated correlation, because only 15 percent of arable land users registered themselves as full-time farmers. Referring once again to the Agricultural Census of 2000, it is worth emphasising that the proportion of farms using more than 10 hectares of land within the “farm” category is 14 per cent, which is one percent less than the figure for full-time farmers recorded in another database taken from another sample. On the basis of these two figures it seems to be reasonable to suggest that some 14-16 per cent of those involved in some form of farming can be called farmers, i.e. those whose commodity production probably matches the criterion of “farmers.”

Why is it important to emphasise this? Because it highlights the fact that what statistics register as a “holding” is generally far from being a proper “farm” and usually isn’t compatible with the Western concept of farm. Ordinary land users do not identify themselves as “farmers” either. In the Hungarian context, the most important function of these plots is to secure additional income and/or household savings, they seem to be something between “gardening” as a hobby and an extension of “housework”. Although auxiliary farming represents an important segment of agricultural production, and could provide some 20 to 30 per cent of production value (making the necessary

deductions from the figure in Table 4 according to which sole producers as a group produce 45 per cent), they should not be included among the group of “proper farms.”

Plot Farming and Its Importance in Hungary

As is well-known, the collapse of large-scale farms contributed to a sharp rise in rural unemployment. It is also well-known that the approx. 400,000 jobs which have disappeared since the beginning of transformation, could not be replaced by new opportunities in rural areas, whether in the farming sector or elsewhere. In this situation, plot farming is essential for masses of rural households for sheer survival, but few of those engaged in this activity understand it as “farming”. Rather, they pursue it as part of family survival practices, only to leave farming as soon as alternative jobs appear. This is what we found in the region where we have been conducting field research,¹⁶ and this is how we explain the regional variability of the data on the diminishing small-farm category (farms below five hectares): the decline is more rapid in central Hungary where the bulk of the foreign investments were attracted.

Our field research (as mentioned above) took us to Karikas, a market town with 27,000 population, 15 km away from one of Hungary’s strongest rural centres and 100 km away from the capital city. Here some 3,000 irrigated vegetable gardens have been established around the boundary of the built-up area of the town and the surrounding fields, which means that roughly every third family possess a garden. These gardens were started in the early 1970’s and ranged typically from 1,000 to 4,000m², although similar intensive gardening was also in operation before the 1950s (some 100 vegetable gardens ceased operation in the early 1950s). The local discourse calls these gardens “hobbies,” but it is not only amusement that people search for there. Massive commodity production has been taking place in the Karikás vegetable gardens, sold either to the local cannery or to

16 The staff of the Department for Regional Development Research of the CRS, HAS. Most fieldwork was carried out by Monika Mária Váradi and myself.

the Budapest wholesale market. From interviews we learned that it is not usually the town poor that maintain such gardens, although an estimated quarter of the gardens belong to low-income households (pensioners, unemployed people, etc.). It is predominantly the middle class who work and pursue hobby gardening the most, some of these have developed strong market gardening enterprises (the mayor of the town, for example.) Factory workers and the unemployed, registered or unemployed for longer than the registration period, work in the gardens as hired labour in the high season. Both the income and the products gained from these gardens, either as owners or as labourers, contribute substantially to the households' income, and might even in the extremes (in the low-income households and among entrepreneurs) represent the major proportion, nevertheless, in most cases, people rank gardening as of secondary importance in their strategies. Their main concern is to maintain or acquire a "proper job" that provides regular income and social security. These are not small-scale farmers despite the fact that they use the land and are involved in commodity production and that the majority of them have registered as "sole producers" in the Agricultural Census.

Similar results can be drawn from a survey in northern Hungary (Spéder 1997). In the village surrounding a traditional rural centre, half of the households never bought meat and vegetables at the shops and a quarter produced such commodities for the market as well for their own use. 39 per cent of the households bought such products occasionally, and only 11 per cent of village households bought food in shops exclusively. This research also identified small-scale farming as an integral part of the strategies of families "in the middle". Research on the unemployed of another Great Plain town reported a similar proportion of self subsistence: 57 per cent of those who were dismissed from industrial jobs produced for self-consumption exclusively and 17 per cent also marketed some of their produce. Among those who had been made redundant from agricultural jobs, 43 per cent produced for self-consumption and 41 per cent also for the market (Laki 1997). These data underline the importance of plot farming in crisis situations. The author also

adds the following warning: plot farming (which did not exceed the level of gardening for the majority of the households investigated) is a privilege, despite the widespread access to it. However high the entry price, those who lose access to it are threatened with extinction.

Another, somewhat related issue is the question of capitalising on the small amount of land gained within the de-collectivisation process. Those who were beneficiaries, and possessed the means for production, were able to launch individual cultivation activities, others rented their land out or contracted its cultivation. The ongoing restructuring of large-scale farms, however, also threatened the small amount of income generated from small plots of land in environments where large-scale farming was the rule and where successor farms remained in a monopoly situation. (Hamar 2001)

What all these factors imply, is the enormous complexity of the issue of farm structure and the likely maintenance of small-scale farming because of its intrinsic integration in to family strategies and ways of life. Although maybe in a somewhat reduced form, *auxiliary farming is going to preserve its importance in the medium term.*

SUMMARY

To briefly summarise the strengths and weaknesses of Hungarian agricultural transformation: the major elements of a market economy that had penetrated agriculture in the late-socialist period provided a marked advantage at the beginning of the transformation process. A market-friendly mode of restitution and later political interventions also facilitated the creation of capitalist structures. Cooperative break-up and changes in farm ownership and organisational structures took place extensively in the decade following the issuing decollectivisation laws, resulting in a mixed farm structure with various forms of corporate and individual commercial farms. Concentration of the property also began, although poverty which rooted small owners to their tiny plots, and in the absence of alternative employment possibilities, this slowed down the land concentration process.

What gives serious cause for concern, however, is the problem of rural poverty, which, although it is connected with agricultural restructuring can not be solved within the agricultural sector. So far, thanks amongst other things to the privatisation of land, the majority of families have survived the years of transformation by relying on a style of agricultural activity that is subsistence-oriented and only sells the surplus. The substantially greater than average rate of decline in small holdings in the developing regions (Central Hungary, North and Central Transdanubia) shows that the solution is dependent on the development of other sectors and the pattern of foreign investment – because these have created new jobs or maintained existing ones, and generate the taxes which have strengthened local resources. All of which means that agriculture is not the backbone of the rural economy it once was. Nevertheless agriculture has an important part to play, and needs to recover quickly. Thanks to those accelerated yet relatively structured processes which were the most persistent factors directing the transformation, Hungarian agriculture has a good chance of doing this. It is to be hoped that Hungarian agriculture will continue to find supporters, particularly with the help of the much anticipated and feared new patron, – the European Union.

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