

## The End of the "Agricultural Miracle" and Property Reform in Hungary

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Hungarian accomplishments in the area of agriculture and the favourable situation of Hungarian agriculture in the 70's and 80's was a significant contribution to the perception of Hungary as the 'joyful barrack' in the socialist camp. This was not solely due to the fact that no other socialist country could offer the abundance and variety of produce available in Hungary (although in conjunction with the availability of Western style consumer goods this did serve to make Hungary a centre for shopping tourism for the socialist countries), but also because agriculture assured sufficient income that from the end of the 60's until the middle of the 80's Hungarian villages could be spectacularly modernised and housing could be renewed according to the suburban model.

The amount of grain (wheat and maize), pork, chicken and egg production per inhabitant matched the agricultural indexes of the most highly developed countries, 25% of the agricultural and food industry products were regularly exported. Those who sought to reform the socialist countries often referred to the Hungarian agricultural system as exemplary, moreover, in the 80's the interest of Western agricultural professionals increased intensively. Some of these were astonished at the achievements of Hungarian agriculture, and treated the reports with scepticism. Typical of this viewpoint is Nigel Swain's monograph (released in 1985): "Co-operative Farms which Work?", others looked at it as a possible method for European agricultural modernisation.

This agricultural system was not only able to apply the most modern American-style production and breeding methods, but was also able to renew and partially organise "part time farming" (traditional small-scale farming) into a system which was able to provide an additional income for 80% of village households.

During the renewal of the Hungarian agricultural co-operative system in 1959-1960 – though the peasants were persuaded in a very forceful and threatening way to become members of the co-operative systems (otherwise family members would lose their jobs, or their land would be exchanged)– it was far removed from the traditions of the kolkhoz model. By trying to attract the most successful farmers to take control, it offered career opportunities for the members of families who were on the kulak lists of the 50's. Through the termination of the state machine centres and the development of

complex co-operative farming enterprises, the establishment of a powerful financial incentive program became possible within the co-operative (as a result of the co-operation). At the same time they created small productive farms, based on household farming.

At the end of the 60-s the financial security of the remaining members of the agricultural co-operatives became so strong, that the co-operative farms were able to become a successful part of the labour market. Because educated young and middle-aged people joined these co-operatives, with these influences such farms were able to continuously update their agricultural techniques, organise and develop industry and expand the village building business. The non-agricultural activities organised within the co-operative context made it possible for these agricultural organisations to become the main employers in villages despite the growth of productivity in agricultural labour in the 80's (which exceeded the industrial productivity-growth). Co-operatives and state farms employed 30% of the active breadwinners in villages.

Despite of the success of the Hungarian agricultural system, it struggled with significant structural difficulties. The political taboos regulated the forms of competition and specified the division of labour between the large and small-scale enterprises. As a result of the monopoly of large-scale enterprises in the acquisition of landed property, the land-market did not operate efficiently, and the price system functioned as an instrument of the planning system. The selection of farmers and the co-operational connections between them were also artificial. As a result of this a middle echelon of entrepreneurs between the small and large-scale enterprises could not be developed, and an independent means of supply could not emerge.

As a consequence of the capital-effectiveness of large-scale enterprises, which produced 55% of the agricultural added value, Small/middle sized enterprises declined – even after the introduction of American-style technologies. Auxiliary and household farms produced so-called labour-intensive products and half of the meat production but as the result of a ridiculous amount of work. Due to the economic changes of the 60's and as a result of the favourable market for agricultural products during the agricultural prosperity of the 70's, Hungarian agriculture became of strategic importance to the national economy. Hungarian industry was dependent on support and narrowly focussed on export to comecon countries, its ability to function and develop depended on agricultural exports to provide resources and capital input (although agriculture was intensively supported by the renewal of the food-industry). A considerable part of the energy bought from the Soviet Union was covered by agreements about grain and meat

transportation. Imports coming from Western countries and the technology necessary for the production of modern industrial equipment was also increasingly funded by agricultural export.

The forced mercantilist policy of the 70's and 80's perpetuated any activity which could provide a product for export – regardless of the amount of domestic labour needed to produce it. Despite the development of a generally unfavourable agricultural market in the 80's (due to continuing overproduction in Western Europe and the United States), the domestic price and supporting system instigated a restricted rationalisation in agriculture. The agricultural work-mechanisms were not only conserved by political restrictions, but also by anxiety that any radical transformation of agriculture could adversely affect potential exports. Although analyses of the 80's showed quite clearly that in comparison with the advantageous and competitive position of Hungarian grain-production, meat-production even though it was much less effective, seems remunerative only because Hungarian grain was sold at a low price on the domestic market, due to foreign trade constructions(barriers) and government subsidies. Sugar beet and potato cultivation had no opportunity to become competitive, as the market for horticultural products had no mechanism that could have driven it to develop profitable work-systems. The products, which could be exported, were needed and the state had no tools with which to implement transformational strategies.

An inevitable agrarian crisis developed following the change of regime in 1989-90. The reason for this was not only the significant over-production due to overwhelmed channels of export to the East, nor solely the 10% decline in domestic demand, but also the fact that the liberalisation of trade; the change to private ventures; the reduction in consumer support and the suspension of guarantees of export-subsidy made the inherent structural problems more visible. A swift transformation of work-systems, applied technologies, co-operational forms and integral mechanisms became inevitable.

The farmers were divided by the problems imposed on them. A group of them, the directors of large-scale works with a reforming mentality, and those successful private entrepreneurs of the second economy, searched for ways to develop new forms of management and co-operation (as in the 80's there were already several alternative forms, thanks to innovative farms, and the prosperity of the second economy). The other group demanded a state solution that would ensure that farmer's jobs were secure. This situation led to agricultural property reform, but from that time on the attainment of positions as proprietor or lessee, and the protection of one's own livelihood became more significant than strategies for the reformation of agriculture.

Two proposals for the transformation of the agricultural system along with property-reform were formulated by those parties which were in favour of a change of regime. During the preparations for agrarian reform the Hungarian Democratic Forum (MDF)<sup>1</sup>, the Alliance of Free Democrats (SZDSZ) and the Agrarian Alliance planned their agricultural programmes to modify the 'status quo' based on the processes of the 70's and 80's and referring to past property reforms. Measures included the promotion and stimulation of independent ventures and branches of multi-profile co-operatives, ensuring that secession from the co-operatives and the acquisition of land and the tools of production, was made easy for the ventures which originated in the second economy, and the establishment of two new co-operational forms: a co-operative of small-scale producers and secondary co-operatives that would facilitate trade with the food industry. The basic principle was that the land should be owned by those who work it. (The slogan of the property-reform of 1945 was: "the land belongs to those who work on it.")

On the other hand the Independent Smallholders' Party (FKGP) (which has become increasingly active since autumn 1989) supported a program of property-restoration. According to this proposal, each plot of land should be restored to those who owned it in 1947 (after the property-reform, the displacement of Germans and the population exchange between Slovakia and Hungary). The principle of land-ownership restitution was associated with a concept of reviving forms of small and middle sized farming, and completely restoring the ownership rights of the previous owners. The co-operatives expressed publicly their fears that this would fragment the land to such a degree that in the future there would be no land left for large-scale cultivation. This fear was not unfounded as there were no rental and farm-establishing regulations. Although all the other parties dismissed the Smallholders' Party's proposal, as a result of their actions the topic of land ownership became a subject of greater debate than the questions concerning the future of the agricultural system. What should be done about the rights of those from whom land had been confiscated (either by nationalisation in the minority of cases, or by forced sale to the state at a low price in the majority of cases) became the significant question. Until 1989 there was a legal regulation that the property of those who leave co-operatives or the property of the ancestors of non co-operative members should be bought by the co-operative itself.

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<sup>1</sup> This followed the meeting in the autumn of 1988 (meeting of Kiskunmajsa) where co-operation between the Hungarian Democratic Forum, the Alliance of Free Democrats (SZDSZ) and the Agrarian Alliance was agreed.

So by 1989, 80% of the arable land was managed by co-operatives, and a third of this land was owned by the recent workers and the retired members. 50% of these members had families and these were co-owners of the shared land. The remainder of the common lands were owned either by the state who held 5% or the co-operative community who held almost 60%.

As long as common land was only used for household farming or rented for cultivation, the proportions of ownership were not significant. But in 1990, after the proposal of the Németh administration, the last socialistic Parliament removed the barriers to obtaining land property and made it possible for the co-operatives to release the properties in the cadastral register and to give it back to their members. The former landowners and their ancestors who stayed in the co-operatives obtained a channel through which they could get their property, for the rest an emergency situation emerged: the co-operatives were even allowed to distribute or sell their former property. (This danger existed actually mostly in theory, as in 1990 most of the co-operatives did not deal with the question of property-reform).

Because most of the former landowners and their ancestors left farming long ago and now had jobs in other fields, the restitution of land to them would be against the principle that property-reform must help the farmers. However the restitution process could have lasted for many years and could have interfered with the interests of many people for the following reasons: the re-distribution of land that belonged to Hungarian Germans, the repeated change of landowners, not acting on the provisions of a will, the withdrawal of 500,000 hectares of arable land, changes in land-use, new investments in improvements and irrigation works and newly established plantations. So, before the first free elections in 1990 the MDF, SZDSZ and the Agrarian Alliance assumed the opinion that co-operative and state farms had to make lands available for the purpose of organising private holdings for those farmers who wanted to be independent. Moreover, these farmers could get more landed property by right of their membership of co-operatives, and from compensation and former contracts of lease and cultivation. It was also felt that they should be able to buy new lands on the market by large-scale mortgage credit. Former landowners who left farming and departed from the village, could get partial compensation in other ways. The Hungarian Socialist Party (MSZP) and The Alliance of Young Democrats (FIDESZ) accepted the plan, but the Christian Democratic People's Party (KDNP) was radically opposed to the concept of restitution. It recommended that local societies should take control in the field and that as they would be aware of the local conditions they should rent plots – on the basis of co-

operation and with the intent of stimulating local collaboration – to local entrepreneurs and those who wanted to keep the co-operatives together.

Since most of the private entrepreneurs who thrived in the 80's (e. g. owners of specialised and capital-accumulating households and complementary farming plots, managers of large co-operatives, owners of horticulture and greenhouses, shepherds, farmers cultivating special plants, etc.) did not have a notable heritage in the settlements where their holdings were, the policy of restitution threatened both their safety and that of the co-operative farms. That was the reason why the MDF-delegate, acting on the private farmers' behalf, severely criticised the privatisation and restoration program during the pre-election TV-debate on agrarian policy in 1990.

The new government, the Antall-cabinet, relied on a coalition of three political parties: the MDF, FKGP and the KDNP. Since this government needed the votes of those sympathisers in the FKGP, the party was constantly declaring the sanctity of private property, and it accepted the principle of complete restoration. (But it refused the restoration of the 1947 property ownership situation. Not only because it would be impossible in view of the technical difficulties, but also because the conditions and values of the real estate had changed significantly and finally, it would be unconstitutional to compensate the unlawfulness committed after 1947 and at the same time ignore the plundering of the property of Hungarian Germans and those Jews who survived the holocaust.)

The Government made two attempts to carry out the MDF's original agrarian program. First at the second meeting in Kiskunmajsa the agricultural spokesmen of the six parliamentary parties, under the leadership of a deputy-under-secretary of state, agreed to give compensation coupons – with an expiration date of 12-years – to the former landowners. These coupons could be used to buy land as well, but its chief function was to confer the right to an allowance. The source of the allowance would be the Estate Fund (Földalap) and lands taken away from agricultural concerns. By leasing and selling these estates the government wanted to animate the private economy and the land market. All the spokesmen signed the agreement except that of the FIDESZ, because the young democrats rejected every form of compensation. But in the end the factions of the government-parties didn't ratify the plan. The FKGP refused it because they insisted on their original program. The other two coalition-parties also said 'no', because they considered the plan ineffective against the „Green Barons' (i.e. the managers of the co-operatives) power”.

After this, the Government tabled a general Compensation Bill that allowed former small-holders to use their compensation coupons to privatise shops, workshops, flats or for purchasing shares. But the amendments added by the FKGP changed the law to such an extent, that it was more profitable to buy land than other property, even for those who just wanted to draw profit from the privatisation. (The FKGP would have liked to change the act to make it favourable to those who requested compensation on the basis of an inherited claim, but the Constitutional Court rejected this distinction. It ruled that applying positive discrimination is permissible only on the basis of actual agricultural interests, but can not be based on the situation in the past. However the Smallholders' Party, which primarily promotes the interests of former landowners who now live in towns, didn't want to accept the implications of this).

The inefficient and unfair enforcement of the act and the growing tension between the local residents on one side and on the other side the absentee compensated people, made the coalition parties less popular. But this situation afforded a chance for entrepreneurs with long-term plans, and for co-operatives, new corporations and emigrants who planned to restore the estates of the landed gentry, etc. In this way they could establish contiguous holdings by buying up compensation coupons and organising groups interested in a common cause. Co-operative and state farms had to release 30-40% of their land for the purpose of compensation. In return for this, their members and employees without landed property received 1.5 or 1 hectare household plots as recompense.

The second step in privatisation was the Co-operative Reorganisation Law and the Land Issue Law, both of which were passed in 1992. The aim of these acts was to divide the collective co-operative lands into small private properties and allocate them to the co-operative members modelled on the system used by share-companies. The new Law on Co-operatives, also passed in 1992, defined the future of co-operative farms as a hybrid of collective farms and corporations. Because of the poor regulation of the redistribution of the collective farms and the allocation of its wealth: property buildings, livestock and machinery were completely separated from land, so the law made it even more difficult to establish new holdings. Some rules were aimed at parcelling out different qualities of land fairly and these made the plots irrationally small.

Furthermore the members of co-operatives, who had been in revolt in 1989-90 in many places, had become distrustful of privatisation by 1992. Since the compensation had been accomplished at the collective farms' expense (potentially the property of their members), and smallholders finished with a higher deficit than co-operatives because of

the agrarian crisis, farmers had no desire to become independent. The effort to encourage the workers of the same branch to become independent as a corporation, was weakened by the modification of the Reorganisation Bill in Parliament. They established the status of external members and decided that a minimum of 50% of the property should be divided up in proportion to the length of membership. So almost 20% of property was claimed by former members and their ancestors and 50% by retired members. Most groups looking for independence didn't dare to discuss the restoration of land property, as they were afraid that outside owners would take their jobs.

During the transformation only 10% of members left the large collective farms. Most of them became unemployed or got a job outside his own division. They sold their remaining property (esp. cattle) to the slaughterhouses. But 2% or 3% of them succeeded in establishing entrepreneurships (businesses). Pooling their property they invested it in machinery and workshops, and started new ventures and co-operative corporations, thus the rural economy was diversified (-It's ironic that in many cases it was the former leaders of collective farms who organised these new ventures).

The new challenges of the market economy forced the surviving co-operatives to change: they dismissed many workers as a result of the reorganisation. Many co-operatives divided themselves into smaller corporations, this enabled them to unite the collective property with the property of employees and outside investors. Reducing business activity they transformed into small or medium-sized enterprises with only two or three branches of business. Others established new networks of enterprises in storage, trade and the processing of food or family-based enterprises in horticulture, etc.

It's an undeniable fact that the importance of the co-operative sector, including those companies formed from former co-operatives, is decreasing steadily in Hungarian agriculture. The three main reasons for this are: 1) the increasing number of new holdings and private enterprises (about 30,000) on the market, 2) the discriminatory Land Law, passed at the beginning of 1994 and 3) the revival of anti-co-operative policy as of 1998. The new system in which Hungarian agriculture can adapt itself and so strengthen its market position still doesn't exist. The main reason for this is the Land Law, which hinders the stability of landed property.

In the summer of 1993 the Government tabled an amendment about landowners' duties, land renting and the right of pre-emption to help the development of new farms. But the Smallholders' Party changed this ultraliberal policy and modified this amendment. Thus



the minimum period of land renting was fixed at 1 year (instead of 8) with a maximum of 10 years, and it prohibited foreign access to land ownership. During the last week of that session the FKGP also contrived that domestic legal persons (e.g. co-operatives, corporations) wouldn't be allowed to purchase land at all.

This unsuccessful regulation made strengthening and investing in new co-operatives and corporations impossible, and blocked the development of the farm-system that had started in 1991-93. Many of the new holdings that established investments were formed on the basis of family relationships or fellowship, because the owners had to integrate properties to get credit from the banks. It had been a custom in Hungary to establish corporations since 1988 anyway. The short renting term blocked even the progress of private enterprises. There is no doubt that most of the 2.2 million new landowners don't run these farms (they just do gardening on the holiday resort or around the house), so two thirds of 6 million hectares arable land are leased out. Owners don't want to sell their landed property because it is highly valuable as a family heritage.

Prohibiting domestic legal persons from purchasing land was favourable for those private persons who bought estates on speculation. Especially innkeepers, lawyers and businessmen living in the country who bought up estates that tenants couldn't have purchased. Speculators also lease these estates out and prepare a more effective system of holdings because they buy neighbouring lands, knowing that only contiguous farms will be of high value in the future. But at present they also block long-term agricultural development because they are temporary owners.

In 1994 about 70% of the major private holdings and almost all the co-operatives were farming rented lands. Those of the managerial circle and their fellows in the co-operatives and private farms owned by many people, were stimulated by the Land Law to buy as much land as they could, to keep up production. But the result of that forced strategy was that relations became strained, because the owners who had more land were also employers of the rest. In these cases they would leave the co-operative and the others members would lose their jobs. More and more managers and experts prepare themselves to secure their families' livelihood should their co-operative break up.

Since the farmland system is unstable there isn't any long-term investment in agriculture, thus the land-use is inefficient. So the renewal of Hungarian agriculture's capacity and technology, which is so important to finding new markets, has come to a halt. Even in the expansion of the food industry, which received massive investment, new lines of products stopped in 1996. The food industry succeeded in stabilising most

of the dairy farms and irrigated farms using crop rotation, but after 1996 the flourishing number of high-quality primary producing holdings ceased to increase..

The agricultural output of Hungary declined up to 1993, increased between 1993 and 1996 and since then it has been approximately 70% of the mid-80-s level. Farmers belong to two different groups: those who were able to stabilise their holdings by co-operating with the food industry and export companies, and those who produced what they could depending on governmental subsidies. This situation will not change for a long time without stable land-ownership and new programs to co-ordinate the ownership of land and investments.