

13. The post-Socialist transformation of land ownership in Hungary¹

Zsuzsanna VARGA

I. Introduction

After decades of a Socialist regime, the establishment of democratic institutions and a market-oriented private economy began in Hungary in 1988 and 1989. Political and economic transitions took place at the same time. Hungary had to switch over from a one-party to a multi-party system and from state and cooperative property to private property. At the time of the political transition, it seemed that agriculture would be the economic sector that would adapt most easily to the conditions of a market economy.

Hungarian agriculture had shown an unrivalled capacity within the Socialist block. Besides supplying the population of the country with high-quality products, its produce was exported to both eastern and western countries. In fact, in the first half of the 1980s Hungarian agriculture ranked among the world's best in cereal farming and meat production. In 1985, Hungary ranked fifth in the world in grain production per capita, second after Canada in wheat production, and fourth after Denmark, Holland and Australia in meat production. Hungary came second only to Holland in mass-scale production of hens' eggs (Magyar, 1987: 25-28). It is therefore all the more intriguing that this sector went into a long downward spiral after the system changed. Production declined dramatically in the 1990s and for a long while it stayed about 30 per cent below the former average output. The average yields of all major crops also declined (Laczka, 2003: 9-13). While growth in industry began from 1994, and in other sectors of the national economy from 1996 and 1997, the agrarian sector faced a continuing and comprehensive crisis.

After a brief historical introduction, this chapter focuses on post-Socialist property transformation in Hungarian agriculture. On the one hand, I shall summarize how the different political actors influenced the enactment and the enforcement of the compensation acts. On the other hand, I shall outline the actual processes that resulted

¹ In thinking about the issues in this paper, I have greatly benefited from my participation in the workshop that gave rise to this volume and in the conference on Twentieth Century Hungarian Economic History, organized in Győr (Hungary) in October 2007.

in the change of land ownership and land use. Finally, I shall pay special attention to the radical transformation of rural society. I have approached these problems using archival sources and the records of parliamentary sessions, as well as the results of sociological surveys. This historical-sociological outlook will enable an analysis of the complicated processes of compensation (restitution), privatization and de-collectivization in which property rights and related institutions were fundamentally reshaped into new economic and social structures².

II. State, cooperative and private property under Socialism

During the decades of Socialism, the sharpest conflicts between the Communist party and the rural population concerned the private ownership of landed property. From 1948-1949 onwards, the Hungarian Communist party (then officially called the Hungarian Workers' Party, from 1956 on, the Hungarian Socialist Workers' Party) launched collectivization as an integral part of the Soviet model (Lampland, 1995: 144-160; Szakács, 1998: 257-229; Varga, 2004a: 221-252). But cooperative farming based on the *kolkhoz* model seemed advantageous only to farmers who had little or no landed property. The majority of farmers had no intention of giving up their individual farms, not only because it was their accustomed way of making a living, but also because they believed, based on experience handed down through generations, that only 'independent small farms' of at least five to six hectares could ensure safe subsistence and economic independence. Farming this amount of land was considered necessary to achieve social recognition and at least partial protection from social defencelessness (Fél, Hofer, 1997: 37-52).

As a reaction to this, the representatives of the political leadership sought to narrow the farmers' agricultural produce and market relations. Furthermore, they made every effort to loosen and even to eliminate farmers' persistence in keeping their private property, especially concerning land. One of their methods to achieve this was land consolidation, which at this point meant that the cooperatives simply incorporated the holdings owned by farmers unwilling to join them. Dispossessed farmers received a plot of land of similar size as compensation, but further away from the village and usually of significantly worse quality than their own (Sipos, 1991: 496-497).

However, even these methods were insufficient to reorganize Hungarian agriculture successfully. Two attempts at collectivization failed in the 1950s. It was only by 1961 that a third effort was successful in establishing large scale Socialist farming. However, it is important to emphasize that, as opposed to the Soviet

² For a fuller understanding of transition processes in eastern Europe, see CREED (1998), HANN (1998), SWAIN (1996), SWINEN, BUCKWELL, MATHIJS (1997), and VERDERY (2003).

model, collectivization in Hungary did not mean a change in juridical ownership of the land taken into cooperative use. Almost three-quarters of the land used by the cooperatives were privately owned, while that remaining came under state ownership (Szakács, 1989: 61). However, the private property rights of the cooperative members were heavily restricted. Owners could not sell the land and did not hold effective ownership rights on it, since the cooperative statutes decided what the land should be used for. The owners' rights to dispose of the land ceased to exist in practice, except for the right of inheritance. However, owners could claim land rent as a formal recognition of ownership.

Once the collectivization process was over, the area of cooperative farmland owned by people not working in the cooperative in exchange for land rent or a usage fee began to increase as members left, moved away or died. Regulations even allowed for the return of owned or inherited land, although cooperatives, with the support of the managing bodies behind them, never actually returned it. This became a source of constant conflict and litigation³.

In the course of a debate on land ownership and land use in the autumn of 1966, János Kádár, first secretary of the Hungarian Socialist Workers Party, characterized the situation of the cooperatives in relation to the reclaiming of land as follows:

'It should also be said that there is no breach of the letter of the law in this matter, since this issue has been regulated by various decrees by the Presidential Council or by the Government, but in reality the existing situation is contrary to the constitution and we are in fact committing continuous breaches of the law, since *our fundamental laws ensure ownership by the citizen. This is the case, and until now ownership has been ensured with the small proviso that an owner can do whatever he wants with his property, apart from disposing of it*'.⁴

Thus land use by agricultural cooperatives in the first half of the 1960s in fact took on the character of ownership. Law IV/1967 sought to solve this problem by bringing in cooperative land ownership (Törvények, 1968: 75-83).

Officially, the Communist party had always supported the general idea of ever-expanding public ownership. However, agriculture followed a rather different path in this respect, as compared with industry and trade. While in the latter sectors expropriation was not followed by any form of compensation, when it came to agriculture, where the process affected millions of people emotionally as well as financially, gradual transformation with financial compensation was preferred.

³ Hungarian National Archive (hereafter: MOL) M-KS-288. f. 28/1965/14.

⁴ MOL M-KS-288. f. 4/83 (my translation; my emphasis).

The land law stated that land in cooperative use might only be inherited by a member of an agricultural cooperative. Non-members had to make their title to the land over to the cooperative. This was forced upon them in exchange for a very small five-year rent, so that the cooperative stood to gain land for very little compensation. Still, the new system left landowning cooperative members' rights of ownership acknowledged by entitlements to land rent.

The 1967 land law marked a new stage. It was a weightier measure than any before in the process of abolishing private land ownership. Law IV/1967 decisively affected the conditions of land ownership in the following twenty years. Thereafter, three kinds of landed property existed: land owned by the state, by a cooperative, and by private individuals. State farms cultivated state-owned land. The ratio of private land within the land cultivated by cooperatives steadily decreased, while the ratio of cooperative-owned land increased. Cooperatives also cultivated some state-owned land as well (Sipos, 1991: 504).

To make matters even more complicated, the overwhelming majority of the land was cultivated collectively, but at the same time, all cooperative members were entitled to keep household plots. Cooperative members cultivated these plots individually and their produce remained entirely at their own disposal. They could use these vegetables, fruits and animal products (eggs, poultry, pork, etc.) for their own consumption or else sell them in the market (Romány, 1998: 316-339).

By the beginning of the 1980s, a new group had emerged out of the cooperative membership, composed of farmers who were very successful in their household farming, but were unable to develop their farms, as they had opportunity to buy neither land nor proper machinery (Szelényi, 1988: 28-41; Valuch, 2001: 200-207). The main cause of this problem was that the Communist party, because of ideologically motivated restrictions, excluded private capital from accumulation for the development of production. In spite of occasional suggestions by agricultural experts, who in the mid-1980s outlined the reform of landed property and of the structure of production, the state referred to obligatory prohibitions, thus delaying the implementation of reforms⁵.

The 1987 law on landed property is a good example of this. Twenty years after the 1967 law, this was an attempt to untangle the rather complicated regulation concerning landed property. Yet, despite the fact that Law I/1987 repealed two former laws, ten statutory rules and about thirty Government orders, it failed to establish an entirely new approach to the issue. For instance, cooperatives were still not allowed to sell

⁵ MOL M-KS 288. f. 38/74.

land to individuals. The single new feature of the law was that it enabled cooperatives to lease out land that they could not cultivate efficiently. Such land could be leased to individuals without any restrictions of time or space, and without requiring any kind of official approval (Törvények, 1988: 3-20).

III. Property and politics in the 1990s

In 1988 and 1989 the land question became a symbolic issue of agrarian policy, since political parties had quite dissimilar views on this. Since the overwhelming majority of land, as an inheritance of the Socialist era, was owned by the state and by cooperatives, the main question was that of according to which legal principles should the privatization of cooperative land be executed – that is, who should be the new landowners.

According to data from 1990, 35 per cent of all arable land belonged to private owners, 34 per cent to the state and 31 per cent to cooperatives (Figure 13.1). However, land use showed a very different picture: individual and complementary (private) farm plots used only 14 per cent of the land, state farms 26 per cent and cooperatives 60 per cent (Figure 13.2). Cooperatives were based on a mixed form of access to land, in which ownership and leasehold went together (cooperative ownership and private ownership leased out to the cooperatives). Of all land cultivated by agricultural cooperatives, 3.8 per cent was owned by the state, 61.1 per cent was cooperative property and 35.1 per cent was private property conveyed for cooperative use (Szűcs, Tanka, 1998: 152-162).

The Hungarian Socialist Party, the successor to the former Hungarian Socialist Workers' Party suggested that agriculture be restructured while preserving the system of large collective farms (Kiss, Vida, 2005: 289). However, at the time of the political transition, the party's political influence was so little that they had no significant impact on the transition of agriculture. The Alliance of Free Democrats, the strongest liberal party, advocated privatization in every sector of the economy, including agriculture. However, they had no clear conception of how to realize this. The Independent Smallholders Party (officially the Independent Smallholders', Land Labourers' and Citizens' Party), a historical party representing farmers and smallholders, was of the opinion that land should be returned to those who owned it back in 1947. Thus, they wanted reprivatization, which meant giving back former owners the exact plots of land they had previously owned. This was very controversial in itself, not to mention the fact that many of the former owners had died in the meantime, and whose heirs consisted largely of workers and intellectuals living in towns.

The Hungarian Democratic Forum, which won the first free elections after the political transition and became the leading party of the first democratic government, was intent on privatization rather than reprivatization. The agrarian program of the coalition government proclaimed that

‘The basic principle of the reform process of proprietorship in agriculture is the idea that the new landowners should be the ones expected to cultivate their properties. It is our aim to do justice to the peasant population for the significant damage they have had to suffer in the past. The year of 1947, when proprietorship was confirmed following the 1945 agrarian reform but forceful collectivization had not yet begun, may be a starting point in this regard [...] The use of agricultural land will take place according to the conceptions of its owners. It is they who will have to decide whether they intend to cultivate it individually or collectively, whether they will lease it or sell it. The purchase of landed property by foreign citizens will be made public and transparent and should be limited only during a transitional period’ (Kurtán, Sándor, Vass, 1990: 454).

Even though Prime Minister József Antall made it perfectly clear that ‘the agrarian programme of the government does not express the opinion of only one party, rather it should be considered as a common stance of all three parties involved’, this was exactly the issue that divided the coalition⁶. While the Hungarian Democratic Forum’s original intention was a privatization entirely based on the market, the Smallholders’ Party, whose supporting votes were essential for the government’s majority in the parliament, wanted reprivatization instead. The Prime Minister sought to ease the controversies by proposing a partial compensation of former owners, including farmers, which might be used to purchase new property. But the Smallholders’ Party did not accept this proposal. Their demand was for the re-establishment of the conditions of land ownership as from 1947. In an attempt to save the coalition, József Antall requested a statement from the Constitutional Court, which finally proclaimed that landed property could not be treated differently from any other form of property.

The controversy over compensation continued even after the decision of the Constitutional Court. As a matter of fact, it even grew stronger after the government accepted the revised version of the bill. In the course of parliamentary debate, all possible solutions arose. The Smallholders’ Party, at one end of the spectrum, held that all former landowners should be fully compensated. The Alliance of Young

⁶ The clash of views showed in the parliament session when reassembling in May 1990. During its first month, the parliament made three amendments to law *1/1987* concerning landed property (*xxxviii/1990*, *xxxviii/1990*, *xli/1990*). The Smallholders’ Party wanted all trade in land prohibited. They feared that if cooperative members purchased cooperative land, former owners who had previously left the cooperative and even the village, or their heirs, would never be able to repossess their land. Law *xxxviii/1990* declared that the ownership of real estate owned or used by a cooperative could be transferred, imposed a charge on, or transferred to a company, the latter requiring special authorization by the county committee of inventorying and stocktaking.

Democrats, at the other, advocated that no compensation should be offered, other than a verbally stated moral restitution. The first act on compensation was eventually passed on 24 April 1991. However, the distribution of votes (189 in favour, 108 against and eleven abstentions) predicted a continuing struggle between the opposing interest groups. As a further indication of this, petitions kept arriving at the Constitutional Court even after the act had been passed.

The parliament finally passed the revised version of the law on compensation (restitution) on 26 June 1991 which took effect from 10 August. The so-called first law on compensation (Law xxv/1991) aimed to repair the damages inflicted by the state on private property following 8 June 1949⁷. Full reprivatization, that is, the restoration of original assets, could not take place due to economic, political and technical reasons. Partial compensation was carried out by issuing securities (compensation vouchers), which were given to the former owners and their heirs. Compensation vouchers were on-demand option rights or bonds issued by the state, which could be exchanged at face value for state assets scheduled to be privatized. They could be used during the privatization of state assets and in the course of the privatization of agriculture, to purchase land, state and local council flats, or to fund a life annuity.

After the first law on compensation came into effect, former landowners were given three months to register their claims, not for a particular parcel of land, but for the estimated sale value of the land that had been taken from them. In Hungary, the value of land was traditionally expressed in a conventional value unit, the 'gold crown'. According to the compensation law, each gold crown was valued at 1000 *forints*⁸. Once converted into *forints* at this rate, claims for restitution of land value, like those under any other heading, were scaled down by means of a digressive formula. Up to 200,000 *forints* the claims were met in full; the portion between 200,000 and 300,000 *forints* was met at 50 per cent; that between 300,000 and 500,000 *forints* at 30 per cent; and finally, the portion above 500,000 *forints* was met at 10 per cent, up to an overall ceiling of 5 million *forints*.

⁷ Although only one compensation law was at first envisaged, four were eventually passed. The second law (xxiv/1992) related to property lost between 1 May 1939 when the first anti-Jewish legislation was published, and 6 June 1949, from when the provisions of the first law applied. The major provisions of the first law held for the second as well, and restitution vouchers awarded under the second law received interest backdated to the effects of the first law. The third and fourth restitution laws did not significantly extend the scope of restitution. The third law (xxxii/1992) introduced restitution for those who had suffered imprisonment or death (in which case their heirs were the beneficiaries) for political reasons between March 11, 1939 and October 23, 1989, the day that the political regime changed in Hungary. The fourth law (ii/1992) was meant as a facilitator for the other three.

⁸ The exchange rate of the forint against the Us\$ in 1991 was approximately 120 *forints* for 1 Us\$.

Having received the restitution vouchers equivalent to the scaled-down value of their losses, claimants could then use them to bid in the auctions held for the land which every collective farm was forced to set aside for restitution claims. Anyone eligible to claim restitution, on the basis of any kind of loss, could bid for land. Auctions were held by bidding a price for each gold crown of land. Bidding was on a Dutch auction principle and began at three thousand *forints* per gold crown, with minimum bids of five hundred *forints*. The higher the value per gold crown at which the bidding stopped, the smaller (or less valuable) the piece of land the bidders would acquire in exchange of their vouchers.

Collective farms had to ensure that the land they set aside for the restitution auctions was of a similar quality to the land that had been expropriated. Collective farm members were able to claim land in either one of three locations: where it was originally located; where the member currently lived, and in any of the other villages where the collective farm operated. Those who were not collective farm members only had the first two options.

The government set up the National Office for Compensation and Reparation, as a legal successor of the former Compensation Office. Compensation offices were set up in each county, the task of which was to inform farms and industrial units by 16 February 1992 about the value of land for which citizens had put in claims. Following this, agricultural cooperatives, state farms and forestries set out to establish land funds to be auctioned to the claimants. Paralleling this, each local authority was obliged to establish a land-administration committee to supervise the auctions and to ensure that all the land in its area was being cultivated, and if not to find temporary farmers for uncultivated lands, whoever nominally owned them. The overwhelming majority of land auctions took place during 1993 and 1994.

IV. Changes in land ownership and land use

The main objective of the political transition in the early 1990s was the radical transformation of the conditions of proprietorship and the establishment (or better said, the restoration) of private property as the dominant form of property. The central components of Hungary's land privatization strategy, besides the compensation laws, were the Cooperative Law (I/1992) and the Transitional Cooperative Law (II/1992). Besides their compensation-related tasks, cooperatives had to undertake the assignment of assets, in the course of which all land and material property they used had to be divided among members, employees, former members and their heirs in the form of proprietary and business shares (Varga, 2004b: 46-51). Any individual with a valid claim could opt to take land or equipment out of the collective; and all who

had been members (not necessarily working members) of a collective for five years, or their heirs, were entitled to hold shares in the new cooperative. On the other hand, all cooperative members and employees were assigned rights to the cooperatives' property and land (up to the value of thirty gold crowns for members and twenty gold crowns for employees), even when they had not contributed land to begin with.

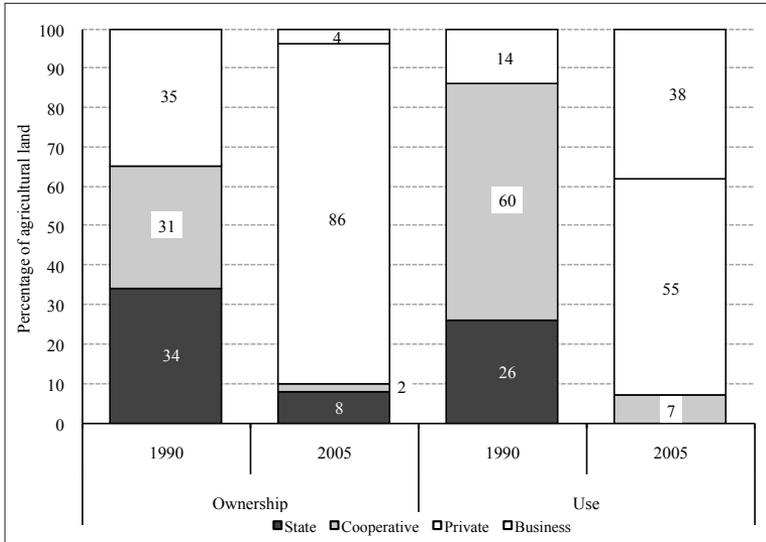
Assets had to be assigned so that members would become genuine owners. This was indispensable for the emergence of new cooperatives based on free association. In accordance with the 1-11/1992 laws, three categories of cooperative members were defined: active members (including management), old-aged pensioners, and external business share owners (former members and their heirs). The principles for the assignment of assets were decided by cooperative assemblies. Finally, business shares came to be divided as follows: 10 per cent on the basis of the assets originally contributed; 20 per cent on the basis of duration of membership; 38 per cent on the basis of the number of years worked; 27 per cent on work performance; and 5 per cent based on other principles (Tóth, 2000: 23-29).

Due to the compensation acts, to the land auctions and to the transformation of agricultural cooperatives, the proportion of private property grew to 70 to 80 per cent. By 2005, some 86 per cent of all arable land in Hungary had become private property; 8 per cent remained in state ownership, 4 per cent belonged to business organizations and about 2 per cent to reorganized agricultural cooperatives (Figure 13.1). Formally, it seems, the original aim to switch over from the Socialist system of large farms to a capitalist agricultural system based on small farms had been achieved. However, if we deepen the analysis, the picture is far more controversial.

On the one hand, an extremely fragmented land ownership structure emerged (Burgerné, 2002: 99109; Szűcs, Tanka, 1998: 8-25). The fundamental transformation of land ownership relations (via the compensation of former owners and their heirs and the assignment and distribution of the land to members, employees and share-owners) led to the significant expansion of the circle of landowners, regardless of whether or not they had any ties with agriculture at all and whether or not they intended to pursue agricultural production on their newly acquired land.

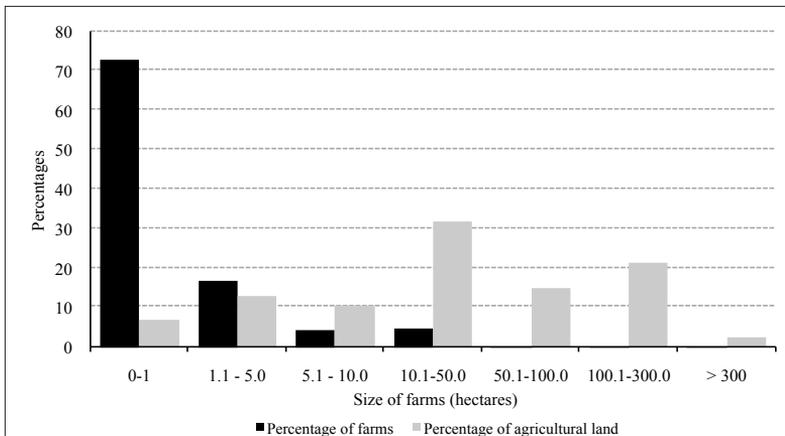
Out of the 1.4 million individual farms registered in the early 1990s, some 90 per cent held less than one hectare of land. Furthermore, farms of less than half a hectare formed the majority within this category. Significant concentration of the land of individual farms began to take place during the 1990s, but although the average area rose fivefold, it still remained below three hectares. According to data from 2005, the distribution of farm sizes was extremely skewed. The overwhelming majority (89.5 per cent) of the individual farms were below five hectares, a farm size that is

Figure 13.1. Distribution of ownership and use of land in Hungary per legal status of entities, 1990-200



Source. Agricultural Yearbooks of the Hungarian Statistical Office, 1991-2006.

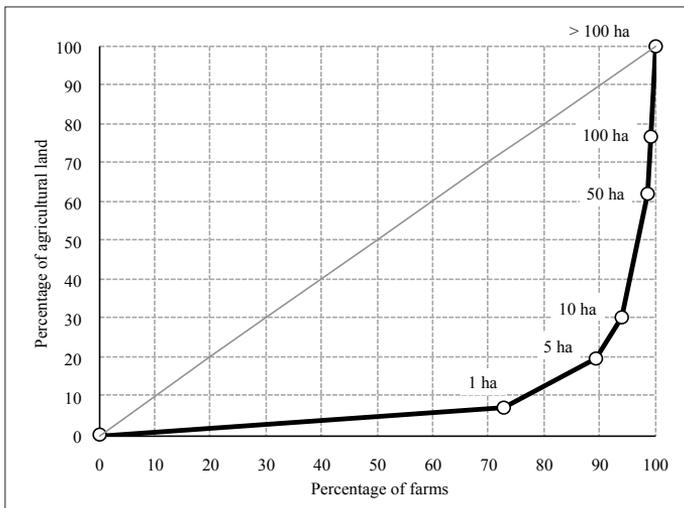
Figure 13.2. Distribution of farms and of land in Hungary per farm size, 2005



Source. Agricultural Yearbook of the Hungarian Statistical Office, 2006.

insufficient to provide a secure livelihood for a family, unless supplemented by other sources of income (Figure 13.2). Conversely, a small minority of farms (1.3 per cent) with over fifty hectares held almost 40 per cent of all agricultural land (Figure 13.3).

Figure 13.3. Distribution of land in Hungary per farm size (Lorenz curve), 2005



Source. Agricultural Yearbook of the Hungarian Statistical Office, 2006.

On the other hand, it is quite apparent that land owning and land use became largely separated and mediated by leases (Swain, 1994: 6-23; Varga, 1998: 145-168). This was a logical consequence of the fact that many in the new group of landowners who had received land under the compensation act had no intention at all of engaging in farming. Most of them in fact leased out their land to business organizations and to private farms. At the same time, many business organizations (which were for the most part the legal successors of former state or collective farms) needed to lease land from the outset, since they were not entitled to own it. As an indication of the significance of this sector, up to 1996 business organizations held a greater share of all land than did individual farms. Since 1996, this ratio has fallen somewhere below 50 per cent nationwide but with significant regional variance (Varga, 2004b: 58-62)⁹.

Besides the mechanism of compensation as described earlier, the other major reason for the separation of land ownership and land use was the Act concerning land ownership passed in 1994. In the last month of the first post-Socialist government, just before the call for elections, a new bill on land ownership was passed. The most

⁹ The smaller co-operatives and business organizations were established mostly east of the Danube, while in the western part of the country large and medium sized farms operating as co-operatives or joint-stock companies have prevailed. In this region in 2000, two-thirds of the total agricultural area was used by business organizations, while to the east of the Danube the division of land use between business organizations and individual farms was much more balanced with more than half of the land being used by individual farms.

important paragraphs of Act LV/1994 determine the group of persons who are entitled to hold landed property or to lease it and the possible duration of the lease. Two groups were excluded from the ownership of agricultural landed property¹⁰.

§ No. 6: Corporate bodies and other organizations without the status of a corporate body shall not acquire the proprietorship of arable land with the exception of the State of Hungary, local government, the Forest Directorate, the Pastures and Grazing-land Management body, and public funds.

§ No. 7: Foreign private persons and corporate bodies may not acquire the ownership of arable land and nature reserve area' (Törvények, 1995: 492-502).

Concerning foreign private persons, the law went as far as to make a distinction in the maximum duration of leases, which was fixed at a mere ten years for foreigners as compared to thirty years for native citizens.

Following the elections in 1994, hopes were high that the new coalition government of the Hungarian Socialist Party and the Alliance of Free Democrats would revise and correct the latter hurried-in act on land ownership. Clearly, it was in the interests of large scale corporate farms, cooperatives and limited liability companies alike, to buy land rather than to lease it. A further issue for the government was whether to let foreigners buy land, but only some members of the Free Democrats openly supported the former option, and official government policy conceived it only as a long term goal.

The revised land bill was introduced to the parliament as late as 24 July 1997. The general debate on the bill started on 19 September and soon grew more heated. Finally, in the autumn of 1997 the governing parties decided to put the question to the citizens in a referendum, along with the question of Hungary's accession to NATO. However, the question was soon put off the agenda due to strong protest from the opposition, which even initiated a petition against it (Tanka, 1997: 17-25).

After such developments it is hardly surprising that the issue of landed property also proved a sensitive subject during the accession talks to the EU. Referring to the land act in place at the time, the Hungarian Government requested the maintenance of a ten-year ban on the sale of land in Hungary to domestic and foreign legal entities and foreign natural persons, beginning as of the date of accession. In essence, the explanation was that since land prices in the EU were five to forty times higher than in Hungary, there was concern that speculative capital would inundate the Hungarian arable land market.

¹⁰ Act LV/1994 defined arable land as an area of land that is located outside towns and is registered as plough-land, vineyard, fruit garden, garden, lawn, reeds, forest or fish pond in the land registry.

It was clear that Hungary did not carry sufficient political weight to enable the Hungarian law, which explicitly bans selling arable land to foreigners, to be accepted in the EU. The agreement concluded in June 2001 includes the following compromise: foreigners who are not resident in Hungary do not have the right to purchase arable land for a period of seven years following accession; however, foreign citizens who can prove that they have been normally resident for at least three years in Hungary, and who have been working in the country as individual agricultural entrepreneurs, can purchase land they held on lease since before the accession (Varga, 2004a: 290-294). In the autumn of 2002 a clause was added, granting the possibility to extend this transitional period by three years, if land prices in Hungary still remained below EU price levels seven years after accession.

V. Transformed social and economic relations

The dismantling of the Socialist farming structure and the creation of a market economy based on private ownership took place amidst extremely difficult external economic conditions. As the traditional COMECON market collapsed, access to western markets proved very difficult. In the period under examination the domestic market for agricultural produce narrowed, since massive unemployment and the drastic decline in personal incomes led to a fall in food consumption.

The political and economic situation of the agrarian sector was also unfavourable. The high inflation rates that characterized the 1990s had an impact on agriculture as well. Between 1990 and 2001, the price of input products and services for agricultural production rose six-fold, while the price of agricultural products at the producers only quadrupled (Laczka, 2003: 10-15). Due to such unfavourable changes in price relations, the income situation of producers significantly worsened. As a result of the drastic widening, by 50 to 60 per cent, of the gap between the prices of agricultural and industrial products in the course of the decade after the change of regime, more than 500 billion *forints* of income were drained out of agriculture, at constant 1989 prices. The widening of the price gap did not take place evenly; it increased in 1991 and 1992 and then again during the second half of the decade.

Subsidies formerly paid to agriculture fell drastically in the early 1990s. Although subsidies began to increase from 1994 onwards, in the 1990s they reached only 27 to 47 per cent of the subsidy levels that existed between 1986 and 1990, at constant prices (Udovecz, 2000: 12-34). Furthermore, central subsidies for agriculture usually remained below the amount of government budget revenue obtained from taxation of the agrarian sector.

As a cumulative consequence of the problems inherited from the Socialist era, of the changes in the foreign economic environment and of the hardships of the transition to a market economy, the agrarian sector faced the deepest crisis of all the main branches of the economy. In the 1990s agricultural production was 20 to 30 per cent lower than the levels of 1989-1991. The level of agricultural income is still much lower than that of the other branches of the economy and the profitability of agriculture has declined enormously since 1991. Financial crisis in the sector and the lack of appropriate credit opportunities had a negative impact on investments, which in turn affected production. The supply of seed declined, and the use of artificial fertilizers greatly decreased, as on the whole did the use of pesticides (Udovecz, 2000: 7-9). Thus, not only has there been no technological modernization in agriculture, it has not even managed to maintain its original level of production.

We shall now turn to the discussion of the situation of the old and new actors in agricultural production facing the economic background described above. As a starting point, we must consider that employment in agriculture fell from 17.5 to 5.3 per cent of the active population between 1990 and 2005. The main reason for this huge fall was that, with the transformation of large collective farms, two-thirds of workplaces in large farms were done away with (Varga, 2004a: 280-294). In the 1990s, the highest number of people laid off in the Hungarian national economy belonged to the agricultural sector, and 90 per cent of these labour-force dismissals took place in a very short period, between 1990 and 1994. Rural unemployment increased dramatically.

The composition of agricultural employment also changed substantially in the 1990s. In 2005, out of the nearly 240,000 people working in agriculture the proportion of wage employees neared 60 per cent, while that of cooperative members was barely 10 per cent. The proportion of entrepreneurs, together with the members of their families who worked with them, was around 30 per cent (Antal, Guba, Kovács, 2005: 6-8). The size of the full-time agricultural labour force was exceeded several fold by that of part-time agricultural producers. The number of people depending on some sort of ties to agriculture to make a living or to earn a supplementary income was almost two million, about 20 per cent of the whole population, and a slightly higher proportion of the working age population.

What has been discussed so far is enough to suggest that the composition of the population active in agriculture changed significantly during the 1990s. In fact, the structure of rural society underwent a radical and spectacular transformation. On the one hand there came to be a wealthy and well organized group of a few ten thousands of farmers, while on the other there was the poverty and the

defencelessness of hundreds of thousands of others (Harcza, Kovách, Szelényi, 1994: 15-43; Kovács, 2002: 247-272).

Former landowning peasants submitted claims in large numbers for the return of the landed property which had once been theirs. However, this ageing stratum returned to production only temporarily, for obvious reasons. Others – mostly claimants of working age whose claims to land were based on inheritance – fearing unemployment and impoverishment, or indeed because they had lost their former workplaces, seized those few hectares of arable land that promised self-sufficiency and perhaps some income. Because of mass unemployment, which was especially high in the provinces, these households established new ways of combining income from small agricultural production with that from other sources (early retirement, unemployment benefit etc.). However, both professional knowledge and capital were generally lacking in these small scale farms established out of necessity (Alvincz, Varga, 2000: 5-41).

Former members of cooperatives that went bankrupt or were disbanded were left with no alternative but to attempt private farming, relying on the land they were given during the transformation of the cooperatives. A very wide stratum was reduced to this need, since the number of those employed on large farms fell by 80 per cent. We may recall that, according to the law, an area of land worth up to thirty gold crowns had to be provided out the cooperatives' property for their members, while employees were entitled to land worth up to twenty gold crowns (Tóth, 2000: 29-34). The new small farms of between two and three hectares owned by cooperative members and employees who had been made redundant now face an uncertain future, since they scarcely have any means of production or finance. In the course of the assignment of cooperative assets, the value of the per capita business share was far less than the amount of capital required to start up a viable agricultural enterprise. Furthermore, most of the tool assets which underlay the business shares were not adequate for small scale farming.

Only the stratum of working-age people whose determination was coupled with adequate skills and assets was able to start up genuine agricultural enterprises. In this respect, besides professional skills, the possession of material goods (land, buildings, machinery) and of liquid financial means was of decisive importance (Balogh, Harza, 1998: 26-30). Often, the larger families of members leaving cooperatives, occasionally joined by relatives who were not cooperative members but who owned external land and business shares, pooled their assets to establish a company, whether they registered it as a legal entity or not. It was also frequent for the leaders of disbanding cooperatives, together with a narrow circle of relatives and friends within

the cooperative and the village, to buy the land, business shares and compensation vouchers allotted to the members at convenient prices, thus getting hold of large parts of the former cooperatives' assets cheaply. In this way they established well capitalized individual and joint enterprises.

Thus, despite the radical changes in ownership within agriculture, large and medium sized farms remain important in the Hungarian economy (Tóth, 2000: 23-29; Varga, 2004b: 92-100). Most cooperatives and state farms were disbanded, and their place was taken by a wide variety of farming types. A myriad of small individual farms emerged, taking up 55 per cent of the land in 2005. On the other hand, the 136 state farms registered in 1988 (using 26 per cent of the land in 1990) and 1,246 agricultural cooperatives (60 per cent of the land in 1990) gave way by 2005 to 4,400 business organizations (using 38 per cent of the land) and somewhat over one thousand new cooperatives (7 per cent of the land) (Laczka, 2003: 3-48; Figure 13.2).

VI. Conclusion

Since Hungary acceded to the EU on 1 May 2004, further challenges as well as great opportunities have awaited the agrarian sector. What advantage producers can take of these opportunities partly depends on the adaptability and organizational capacities of Hungarian farmers, and partly on the fast supply of needed technological developments. As a positive sign, capital reconstruction from domestic resources has already begun, and Hungary can count on the input of working capital from other parts of Europe.

Throughout the stormy centuries of Hungarian history, agrarian producers have demonstrated a high level of adaptability. In the course of the last half century alone they have lived through three major turnarounds. In 1945, land was distributed and small peasant farming became dominant. In 1949 collectivization began, and as a result large Socialist farms (cooperatives and state farms) had replaced individual farms by 1961. In the early 1990s, following the change of political regime, the establishment of agriculture based on private property dominated the agenda. In the absence of a consistent and well thought through agrarian-political concept, many problems arose out of two genuine interconnected economic and social demands: on the one hand, the unavoidable change in the structure of agricultural ownership, and on the other, compensation for the unjust damage caused to private property by the previous regime.

Thus one dramatic change followed another. The one common characteristic of the various regime changes has been that politics, regardless of the values it promoted, has always been suspicious of the inherited structure – a situation that has not allowed for natural evolution. Thus at each change of direction a significant loss of value has taken place, in terms of both capital and production experience¹¹.

The real issue now is both how the actors in the economy and society will adapt to the results of the contradictory experiences of the past decades, and how much time it will take to meet the competitive conditions of the European Union. Another important factor is how sensitive the older member-states of the EU and its administration will be to the national problems of the newly joining states.

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¹¹ For a comparison with what took place in East Germany, see CHOI, WOLZ, KOPSIDIS (Chapter 12).

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