Sustainable development of the rural economy

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Abstract: This paper seeks to provide an overview of those economic, social and environmental issues which could be relevant for sustainable development of the rural economy. Rural development is of great significance for the future of both the EU and Hungary. We must reduce migration, create new jobs and focus on sustainability and the principles and goals of environmental protection and nature conservation. Rural economy is a complex and dynamic system, and agriculture should be treated as a part of it. The development of rural settlements and their infrastructure, the manifold exploitation of the agroecological potential, the rationalization of farming remain, extremely important components of rural development.

Key words: competitiveness, sustainability, cohesive force, rural economy

Introduction

Hungary’s future success mainly depends on the adequate use of the potentials of rural areas, the development and vitalization of rural economy and appropriate regional policies. The full exploitation of natural resources and the maintenance of workplaces in the country are remarkably important in order to fulfil the economic, ecologic and social functions of rural areas. The conception of the sustainable development of rural economy requires a multidisciplinary and multiple objective approach which can only be expanded with the consideration of an extremely complex activity range.

The impacts of the global financial crisis on Hungary imply further difficulties, as the inhabitants of rural areas can only consider over survival, because of their initial long lasting detrimental situation.

Migration from rural areas has been more and more intense over the past decade. The majority of people presumably leave because of the lack of job opportunities and in the expectation of employment and better subsistence. From this point of view, there has been a positive change in the middle and at the western part of the country. On the other hand migration is more and more disadvantageous in northern-Hungary.

The significance of rural development is appreciated by the EU, so the pecuniary assistance is more emphasised in the field of rural development than it is agriculture production. Agriculture and agribusiness are handled in a multifunctional context, where along with the production, environmental protection, the capability of population stability, the preservation of cultural heritage and sustainable development all have equal roles. Sustainability cannot be separated from the barriers of growth. The Earth is finite and no growth can last forever. The boundaries of expansion are given by the continuous stream of energy and substance needed for the living conditions of the population. We cannot exceed the productive and absorptive capacity of the world in the course of extracting resources and emitting waste (Meadows et al. 2004).

Results and evaluation

The projects of rural development have to contribute to the three main goals of the EU, which are the following:
- competitiveness,
- sustainability,
- cohesion.

Marselek (2005/a) refers to sustainability, where rural development serves for the observation of geographical regions and sustainability, in which each of the followings each has a key role:
- local participants,
- local resources,
- operating integrations in favour of the community,
- respect for traditions and the reinforcement of identity awareness.

According to Csete-Láng (2005) “rural policy is the complex system of long-distance interest, aims, implements, conditions and operation based on principles. Rural policy implements rural development in an operative way, which is the local chain of objectives”.

Rural economy is a complex and dynamic system, within which agriculture can be managed. Szakál (1999) starts from the fact, that “rural area is an extremely complicated, versatile, multifunctional system of resources. Some
subsystems can be mentioned in individual cases (natural resources, soil, land, human resources, cultural values, etc.), but the separation of them is not possible without their serious damage or often the breakdown of their original identities. As a consequence, there is an intense integration in the agricultural and non-agricultural activities, along with non-economic activities (cultural and other social activities, lifestyle, etc.) built on this integrated system of resources. That is why rural area can fundamentally be distinguished from the urban area. This economic system built on the rural system of resources is called rural economy”.

The importance of rural areas, demarcation

The New Rural Development Program 2007–13 of Hungary states that according to demarcation criteria (unfavourable demographic conditions and life-structure, economic and infrastructural backwardness) used in previous projects, 88% of Hungary’s area were classified as rural area between 2004 and 2006. Rural areas cover 96% of the settlements of the country, giving home to 47% of the total population. Definition of rural areas has been elaborated since, based on experiences from previous rural development programs. Between 2007 and 2013, settlements with no more than 120 inhabitants per km² or having a population less than 10000 can be considered rural areas – except for the settlements of the Budapest agglomerate, but including the outskirts of non-rural settlements where more than 2% of the total population live. This means the 95% of the total surface of the country, 87% of the outskirts and 45% of the total population is considered. Rural areas represent this specific type of area, where the density of population is lower, land is the means of living, and also the non-urban type (country-like, provincial or farm-like in certain regions) of settlement-structure is common. Rural areas include the outskirts of settlements with high number of inhabitants, but not belonging to the group mentioned above, and where 2% of the settlement’s population lives. There are 33 settlements altogether with 71 000 inhabitants living in the outskirts. The definition of rural areas change with every step taken conforming to specific target groups and the characteristics of each arrangement of the III axis.

The augmentation of the EU has increased the importance of rural areas, because of the rural dominance of new members. The European Commission (2006) announced that rural regions cover 92% of the EU 25 territories. 19% of the population lives in primordially rural regions, whilst 37% of the population lives in typically rural regions, producing 45% of the gross value added and ensuring 53% of places of employment, defined by the OECD.

At regional level, rural development and sustainable development are closely interlinked. In certain regions, efforts have to be made to establish dynamically developing rural areas with the creation of highly developed services and infrastructure (Deme 2003).

The Leader Program

Forgács (2003) explains that the Leader Program which started in 1991 and lasted for three years inspired the expansion of partnerships between the areas. The Leader II program expanded the territory of the previous program concentrating on the innovative quality of the project. In the period 2000–2006, some EUR 2000 million was provided by the Leader + Program for the elaboration of integrated rural development strategies.

Between 1991 and 2006, the Leader Approach was developing and getting stronger, during the Programs of Leader I, Leader II and Leader +, maturing the authorities of member states and action groups to get onto the next stage of the implementation of the Leader Approach.

According to Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), Leader is the fourth pillar between 2007 and 2013, differing from the other pillars not in contents, but in the way of accomplishing arrangements and how they are connected in rural communities.

Sources of the Leader Program have to contribute to the objectives of the other headings of the EAFRD, including a main role in the improvement of governing and in the mobilization of internal developmental potential.

Support given in the framework of Leader built on local needs and strengths consider three goals from the view of a local, community-driven developmental strategy:

1. Intensification of local internal development: One of the main advantages of the bottom-up approaches that they are able to mobilize many local resources for the sake of local developments
2. Structural capacity-building in the governing of rural communities: Action groups made local civilians, entrepreneurs and local governments to co-operate, and elaborate the methods of common tasks accumulating the necessary knowledge for the sake of future actions
3. Encouragement of innovation: Leader can play a valuable role in innovation, because action groups can freely and supply decide what they want to support. This also has an effect on the concept of program choosing.

Changing and sustainability of the Common Agricultural Policy (CAP)

Dorgai (2008) writes that the objectives and support system of the CAP has continuously been changing. One of the very important elements is that rural development has become an integral part of CAP, including environmental protection, the observation of rural communities and protection of rural qualities.

The possibility of a Common Agricultural and Rural Policy for Europe (CARPE) has emerged with principal rules such as:

- sustainability on environmental, social and economic level,
- the strengthening of market-orientation by means of direct support, total separation of production and integration of EU regulation,
• financial recognition of public welfare (food safety, environmental protection, animal welfare, protection of culture),
• reinforcement of competitiveness (modernization, flexible adaptation, exploitation of resources),
• urge of local initiatives.

In our paper sustainability is dealt with in details, because of several reasons.

According to the World Commission on Environment and Development, the simple definition of sustainable development is the following: “It is a kind of development which satisfies human needs and aspiration of present generations, without endangering the activity of future generations”. Brundtland (1987) says that “the strategy of harmonious development aims at the realization of harmony between human beings and harmony between mankind and nature”.

While analyzing sustainable development, the stages of sustainability (global, regional, local) and the dimensions of sustainability (natural environment, society, economy) all have to be distinguished (Csete L. 2005).

In order to reach social justice, catching up and narrowing of social asymmetry are unavoidable.

Causes of the crisis

Hungary is in a difficult situation. The employment rate being 53.7% is one of the lowest in the EU – after the economic structural change of the 90’s, 1.5 million workplaces were diminished and the number of retired people is more than 3 million. There are only 2 million people working in the competitive sector who cannot cover the expenses of 10 million people. Dual economy has been created, subsidiary companies of developed multinational companies produce 85% of the export, while micro small and medium enterprises (MSME) are not competitive on an international level. Although in the last 20 years only the MSME sector has been creating workplaces, providing jobs for 72% of the people employed in the competitive sector (Hágen, 2008). MSME are undercapitalized and lack resources with bad productivity indexes and not more than 20% of them are creditable. In public procurement procedures domestic enterprises are at a disadvantage loosing a significant market place (Vadász, 2008). The global financial crisis which started at on the American property market has affects on Hungary as well. According to experts, domestic difficulties can be originated in the bad interest rate policy of the central bank. Loans in foreign currency seemed favourable because of the high base rate, so 75% of domestic loans are kept in foreign currency. The weakening of the forint because of the weak economy has put those having debts in a difficult situation and made them apply for more loans. The outflow of the capital is notable, partly because of the interest burden of the dept and also, because of the repatriation of profit.

The current crisis has been created by greediness. Schumacher (1980) writes: “How can we actually start the disarmament of greediness and envy? We could be less greedy or envious, or we could surmount the temptation and stop turning our needs to luxury. We could even take stock of our needs to see how to make them simpler or cut down on them”.

Economists had warned a decade ago about the dangers of the foreign sector being outbalanced.

Simai (1999) writes the following: “In Hungary, the foreign sector already has a considerable influence on state revenues, residential incomes, employment and technological development. The impact of internationally owned enterprises on the balance of payments has also been growing because of the exports, imports and the repatriation of profits. There are significant positive consequences of the presence and function of the foreign sector. Presumably, the Hungarian economic situation would be worse and its foreign competitiveness would have deteriorated without the foreign owned companies. The Hungarian system and especially the citizens are still not ready for the presence and function of the foreign sector in the Hungarian economy. Privatization has played an important role in the rapid increase of the foreign sector being the consequences not only of the weakness of the Hungarian negotiating positions and supposed corruption, but of the lack of competence and experience in relation with transnational companies”.

In our opinion, the continuous and extensive disinvestment can create an economic impossibility of performance, the modification of which should be proposed by those competent to deal with it to avoid bankruptcy.

Causes of the rural economic crisis

Of course, the economic situation of a country determines the chances of rural areas. The degradation of the socialist large-scale industry affected the rural population in the first place, because a notable part of commuters became unemployed. At the same time, the unsuccessful process of compensation and the ill-advised agrarian policy both ruined the fundamentals of rural agriculture.

Gögos (2008) explains that “in that time, the Hungarian agriculture suffered a loss of approximately 1000 billion forint in possessions. Unfortunately, it was clearly established that the situation could not be recovered and extremely small estates are complete failures in mass production. The larger, labour-intensive sectors like horticulture cannot lack co-operation and integration. The biggest advantage of household integration was that country people only provided labour, while the co-operative had to take the consequences of organizational, production and market risk management. Above all the economic difficulties, the ability of subsistence farming in village families increasingly died out. Local governments standing on week financial grounds were forced to solve problems such as utilization of waste and infrastructural development.

Inhabitants in villages who had not paid for energy previously are unable to pay their gas and telephone bills or sewage dues, as in some villages there is no income because
of unemployment and the total discontinuance of production. Local governments started to manage schools, sport centres and other institutions without financial reserves. Nowadays conditions in the countryside are exasperating. In general, great masses of village people have not been working for years except for settlements where long-established factories still remained at some stage.

There are some rare exceptions, where an enthusiastic teacher now and then gives support and some kind of art group functions. Otherwise, gardens are not in use and animal husbandry does not exist. It adds considerably to the fact that in many villages regulations for animal husbandry make it almost impossible for people to do it so.

People entirely withdrew into themselves instead of going to communities. No one subscribes to papers, the only culture you can get is the soap operas on commercial television channels. In our opinion, village production and commerce should be re-established even with governmental interventions.

Csányi (2008) writes that “through at least two or three generations a type of workplace-network should be maintained which is close to the residence of those in need. Its aim would be formation and maintenance of a workplace culture to teach participants how to perpetuate the culture of a systematic work performed. It costs a lot of money, but idleness costs even more. A workplace-network and a national sales system have to be founded with subsidy where products could be marketable with the direct help of government”. Local governments could participate too in this initiative and public money could be used to provide part of the wages or benefits in kind, without making usurers wealthier. Until the realization of this plan, carousing is present to a high pitch and the children grow up without seeing anyone work in the family.

The most exasperating fact is that despite virtually no one has a job, they do not even engage themselves in seasonal work. They rather settle down to a certain kind of vegetation, proving the deficiency of benefit providing techniques (Gögös, 2008).

In the countryside, the role of employment in agriculture keeps declining. In small villages the possibility of employment is minimized, so the number of residents depending on social and child benefits often exceeds 70% of the local population.

One of the main obstacles of rural economic development is that there is a great inconsistency between the real needs of the economy and the structure of education and vocational training. Workforce with qualifications and professional knowledge needed for growing economic sectors is not sufficient in rural areas. Sustainability of rural economic development is hindered by backwardness. According to Borsos-Nábrádi (2005) closing up is the only solution, because any kind of maintenance of the settlements who stayed behind in the general social development in Hungary is a more serious problem than closing the cap.

**Crisis management and sustainability**

First of all, domestic economy has to be sorted in order to make rural economy develop. The following tasks are recommended:

- Impacts of a dual economy have to be regularized by new deals and negotiations with multinationals considering the endurance of the country,
- MSME have to be reinforced,
- Increase of employment is a basic task, taking every possibility into consideration,
- Breaking points have to be found – there are great opportunities to develop agro- and food industry, renewable resources and services, such as tourism.

Nowadays agriculture and the related economy are both under transformation. It enforces new kind of arrangements in agriculture, where agro-production and non-agro economy of rural areas are integral. In this framework, local initiatives and the role of micro communities are appreciated in connection with efforts focusing on the general improvement of living conditions and the closing up of rural areas. The fundamental condition of a long-distance development of agriculture is the development of social and corporeal infrastructure.

Since the changing of the regime, Hungarian agriculture has gone through significant changes. Compared to the 1990’s, production in certain sectors has declined and the position of the same sectors both in Europe and outside Europe has deteriorated. In 2007 agriculture added only 3.6% to the GDP, while the employment rate of the sector was 4.7%. The volume of Hungarian agriculture and food production is still 25% lower than before the changing of the regime, and our loss on markets is a huge disadvantage too (Magdá S., 2008).

Unemployment is a growing matter in rural areas. The introduction and development of intense cultures – producing labour-intensive products and greater value-added of production – is recommended to improve the situation. Vegetables and fruits can be mentioned here, where watering is needed for an increased output. Holding up the decline in animal husbandry and viticulture would be extremely important.

The plantation of a somewhat 90 thousand acres of ligneous energy plants is reasoned for biomass production by 2015. The utilization of by-products and waste-material is desired besides the biomass produced (Marselek, 2007).

In order to decrease energy dependence, the economical and efficient use of available energy resources is very important. According to Kerek et al. (2006), the use of renewable resources would be desired in smaller villages and settlements. In our opinion, gas supply can be replaced with small size biomass power stations and the feedstock can be produced on the fields of the given village.

Accordingly, Dávid et al. (2007) says that rural tourism is not a concrete type of tourism, but a mass of tourism types and groups providing the completeness of a rural experience, with which the nowadays popular hunting tourism and observation can be connected too (Fábian el al. 2008).
• too strict regulations have to be reconsidered, authorities
  should help with the complete organization of services,
• the whole educational system has to be reconsidered—
  nowadays, it is not enough to say that changes have to be
  made and that inputs and outputs of different levels
  cannot be separated. Education should be handled as a
  unified and practice-oriented system guaranteeing multi-
  level outputs.
• The protection of the domestic economy is a serious task.
  Hungary has been a target spot for investors since the
  90’s, because of its favourable potentials. The liberal
  economic policy provided a beneficiary environment for
  foreign investments. A lot of multinational companies
  settled in Hungary, although the value produced here is
  not invested at home in many cases.
• Protectionism is present in economic policy of the USA,
  but it has to be seen that initiatives certain can endanger
  jobs connected to exports.
• The increase of the current 3% part-time employment is
  an opportunity.
• We have to aim for using local resources. Opportunities
  of clusters and network organizations have to be
  exhausted. Hungarian clusters are still undeveloped and
  they are in an early phase (MARSELEK, 2005/b).
• There should be a healthy balance between the regions
  beside in- and outflow of materials. A strongly limited
  material consumption and energy utilization have to be
  carried out.
• Motivation for people has to be ensured. The emerging of
  eco-regions is bottom-up initiative, not a top-down strategy.
• The establishment of sustainability indicators has to be
  done as soon as possible, and centralized collection of
  data has to be organized to let local leaders analyze the
  situation.
• The formation of an organization guiding sustainability
  with governmental help is needed. It should be able to
  observe, inform and organise according to the principles
  of sustainability – existing organizations can be involved.
  Local media (television, radio, papers, etc.) should
  broadcast the need for sustainability along with its
  principles, advantages and non-avoidance.

According to Magda S. – Gergely S. (2006) we are in
advancement of a paradigm shift in land utilization. The
production of energy-materials is a possible way of land
utilization and it will be a constraint in the future. It will be
unavoidable because of the deterioration of exchange ratio in
agricultural products.

It has to be answered whether forestry, extensive farming
based on pasture lands or biomass production would be
effective on areas with unfavourable conditions. The practice
of the rational land utilization is characterized by regional
(natural, economic) potentials. These conditions
considerably differ from each other in domestic regions
(Magda R. – Szücs I., 2002).

The proportion of land utilization has to be defined
according to ecological conditions – it should be changed
with redistribution of land use, if needed. Currently, the
increase of the national proportion of grassland and forests
can be rendered to the detriment of arable land. If the system
of land use is not suitable for the potentials of the area, then
the problem could not be solved successfully with
agricultural engineering later (Nagy, 2008).

Production has moved towards the direction of extensive
farming, so the export-import balance keeps deteriorating
because of the less effective production. The integration is
incomplete, Organizations of Production and Sales and
clusters are insufficient, the flow of information and
technical advise are inappropriate. Instead of private
producers, farmers in Organizations of Production and Sales
and clusters have to be given grants, as they are partners in
commercial chains.

In Hungary, the size of uncultivated land is 1,582 million
acres. We have to endeavour to keep the cultivable land in
good condition, so the increase of infrastructural use of land
is not supported in any ways. Kúdár (2008) says that in
Hungary, the size of cultivated land has dropped by 500
thousand acres since the changing of the regime, out of
which 80 thousand acres have been taken from agricultural
production to develop industry, urban area and motorways.

Alternative economics

By now, such social, economic and ecologic tension have
accumulated in the world, part of which is out of the
boundaries of traditional economics. In the past 20 years,
different alternative economic trends have appeared. One of
the most influential basic works in alternative econom is
“Small is beautiful” by E. F. Schumacher (1973)

There are sharp differences between the views of
traditional and alternative economics. The object of
traditional economics is the total of economic processes with
the help of money limiting itself from any other question
(e.g. from ecological and human influences). The alternative
economics on the other hand sees the economy as part of a
system where natural environment and humans are part of it,
beside economic organizations.

Because of this, there are notable differences between the
scales of values of the two trends. The traditional goal in
microeconomics is to reach a maximum profit. According to
alternative economics, the basic value is the preserving
utilization of natural environment and the service of humans.

The fundamental principle of alternative (human-
centred) economic trends: “the economy is for humans, and
not the humans are for the economy”. By this time,
economics being the theoretical fundamental of economic
policies can be characterised by intuitive and
methodological diversity.

The conceptions of ecological economics have to be
considered, as economy should be developed not towards the
direction of modernization (globalization, mass-production,
unified markets, small amount of multinationals ruling the
world, hierarchy in management), but towards the bio-
regional model (flexible production systems, production
based on local needs, subsistence regions, small enterprises,
decentralized management) in order to maintain life on Earth (Kerekes – Kiss, 2001).

Moser (2001) says that the concept of eco-regions (sustainable islands, bio-settlements, eco-settlements, sustainable regions) can be traced back from ecological principles and its essential conditions can be determined:

- Self-controlled (self-)sufficiency in point of basic needs, which are independent from opportunities outside the community and they are also better in quality.
- Complexity and diversity are the pledges of an internal based separateness
- The presence of duality is important as an inducement promoting the formation of new patterns and structures.

In Sweden and in northern countries “eco-settlements” are popular. In Hungary, the foundation of “Gyûrûfû” is an example and it has model qualities. The plan of an economic system is in progress considering economic conditions and sustainable development, to make it possible for member of the community to produce their incomes and to increase common sources (Anonymous, 2007).

**Conclusion**

The operation of rural economy is the pledge of the future. The complex system of agrarian and rural development is composed of sustainable production from agriculture and forestry, sustainable economic systems, sustainable enterprises, sustainable settlements and rural areas. In rural development, the shift towards sustainability deserves a multidisciplinary and multi-objective approach.

The global financial crisis has had an effect on Hungary’s economy too. Globalization is above nations, but the regulation is on a national level – so anomalies are built into the system. Hungary can answer to the crisis by the full exploitation of natural resources and opportunities. The state of the economy and rural economy can be made better by the consideration of sustainability principles, the improvement of the effectiveness in traditional activities, the start of new services and the recognition of the opportunities of innovation and complexity.

**References**


European Commission (2006)


