Transformational Crisis, Transformational Depression, The Changing Agriculture
The Hungarian Case

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ABSTRACT

Using the expression „transformational crisis" invented by János Kornai and used for the whole national economy the paper intends to define the common characteristics of this transformational crisis evolved in the countries concerned. Besides the paper tries to define and interpret this expression in sector approach just as to further develop it in consideration of agriculture. The eastern enlargement of the EU is considered to be different from the former enlargements when it came to the accession of countries with comparatively consolidated agricultural structure and increasing agricultural output. In Hungary the very source of possible difficulties is to be seeked in the transformational depression. Due to the transformational depression the EU-adaptation led to difficulties in the short run and could lead to difficulties in the long run.

Keywords: transformational crisis, transformational depression, EU-adaptation in the agricultural sector

INTRODUCTION

The development of national economy and agricultural performance has been characterised similarly in the Central-Eastern European region in the past one and half decades.

The overall transformational crisis covered more or less all the sectors of the national economies. Following the economic stability, however, the situation changed. While industry and services sectors have been increasingly growing following the drastic decrease in output, employment and investment, agriculture has permanently remained in depressive stage. Economic transformation regarding the agriculture has resulted in drastic changes in all of the CEE countries.

MATERIAL AND METHODS

Our research focused on the past one and half decades. We made a review on the comprehensive experiences of the countries in transition by means of statistical methods. The basis is the examination of the development of the Hungarian agriculture. Besides the quantitative analysis of the main aspects of the national economy and the important sectors some qualitative and structural analysises were carried out as well. The analysis of documents and the literature helps us to open up the results of the transition of agriculture and to describe the processes of the EU-adaptation to be expected.

1. TRANSFORMATION, TRANSFORMATIONAL DECLINE

The social-economic transition in each of the postsocialist countries caused the decline of economic performance. At the beginning of the 1990s the efficiency and structural problems accumulated came to the surface. Economic relations within countries and among countries were disarranged. Decreasing real income, increasing unemployment and the fall in consumption, the cessation of COMECON had a negative impact on economic situations. The gap between the level of development in Eastern Europe and that in Western Europe became deeper.

By the middle of the 1990s most of the countries had overcome the most difficult years of the crisis. The market economy operated more or less. The structure of production was rearranged. The importance of producing sectors decreased. The service sector, however, started to grow rapidly.

From 2001 to 2005 the economies developed in a balanced way in the CEECs. All of the postsocialist counties increased their performance. The growth rate was higher than that in the EU15.

The GDP per capita (based on ppp) in 2005 was closer to the average of theEU15 than in the preceding one and half decades. (Table 1)

Table 1: Volumenindex of GDP and GDP per capita

	1990	1995	2000	2005
	GDP volumenindex, 1990 = 100,0 %			
Bulgaria	100,0	84,5	81,1	103,1
Czech Republic	100,0	95,3	102,4	122,4
Esthonia	100,0	69,5	93,6	139,2
Poland	100,0	111,5	145,0	167,7
Latvia	100,0	53,3	70,2	103,5
Lithuania	100,0	57,9	71,1	102,6
Romania	100,0	89,8	84,1	111,0
Slovakia	100,0	96,2	116,1	145,3
	GDP per capita, EUR (based on purchase power parity)			
Bulgaria	5500	4700	5300	7500
Czech Republic	9700	10600	13000	17100
Esthonia	6400 a/	5200	8500	14100
Poland	4600	6300	9400	11700
Latvia	7400	4500	7100	11100
Lithuania	8200	5200	7700	12100
Romania	5700	5700	5000	8100
Slovakia	7700	6800	9500	12900

Notes: a/ data from 1991

2. TRANSFORMATIONAL CRISIS, TRANSFORMATIONAL DEPRESSION IN THE AGRICULTURE

As a result of the change in the production structure agriculture became the biggest loser. The process – the loss of share of agriculture in GDP - lasted several decades in Western-Europe, but only 2-3 years in the CEECs. (Table 2)

Table 2: The share of agriculture in GDP and employment (%)

	In GDP			In employment		
	1991	1995	2005	1990	1995	2005
Bulgaria	.	15,3	9,3	28,5	24,4	9,2
Czech Republic	.	5,0	3,0	11,8	6,6	4,0
Esthonia	10,3	8,0	4,0	21,0	10,3	5,1
Poland	.	8,0	4,8	25,2	22,6	17,0
Latvia	16,0	9,0	3,8	20,0	18,5	12,5
Lithuania	13,8	11,4	5,7	25,7	23,8	14,7
Romania	.	16,0	14,3	.	38,0	32,7
Slovakia	6,1	5,9	3,8	13,5	9,2	4,9

The rate of agricultural production still differs in the old and new member states. In the CEECs the decline in the rate of agricultural production was caused not only by the rapid increase in the ratio of other sectors, but the decrease in the volume of agricultural production, too. A further common characteristics is that the production of animal husbandry fall to a greater extent than that of plant production. The problem is that the decline and the long lasting depression in agricultural production lasted also during those years when general economic growth started up. So depression became specific for agriculture in the second half of the 1990s. Succeeding sections describe the Hungarian case in detail.

3. PERFORMANCE OF THE HUNGARIAN AGRICULTURE

3.1. Transformational decline in the Hungarian agriculture

The systemchange (in 1989) was followed by a decline of the Hungarian economy for a decade. The national GDP reached the level of 1989 in 2000 at first. (Table 3)

Table 3: Volume of production of the economic sectors, 1989 = 100, (%)

		Gross production	
year	National GDP	Agriculture	Industry
1990	96,5	95,6	96,7
1991	86,2	89,6	83,0
1992	82,3	71,4	75,1
1993	81,7	64,8	78,1
1994	84,2	66,5	85,5
1995	86,2	68,7	89,3
1996	87,3	72,5	92,3
1997	91,3	70,3	102,7
1998	95,8	70,9	115,3
1999	99,9	70,9	127,4
2000	105,0	66,5	150,4
2001	109,0	76,9	155,9
2002	112,9	73,6	160,2
2003	116,1	70,3	170,4
2004	121,0	86,8	183,0
2005	128,7	79,1	195,6
2006 +	133,7	76,7	215,2

The sectoral structure of the Hungarian economy has changed greatly. (Table 4)

Table 4: Gross value added according to economic sectors (current price, %)

Year	Agriculture	Industry	Building industry	Trade, repair, catering	Transport, storage, telecommunication, post	Market and non-market services	Total Distribution	Billion Ft
1989	16	35	8	11	8	22	100	1510
1995	7	26	5	13	9	40	100	4933
2000	4	28	5	12	9	42	100	11483
2005	4	25	5	12	8	46	100	18865

3.2. Change in the production structure

The spectacular change in the production structure was caused by significant decrease (almost 10 percentpoint) in the share of animal husbandry. The development of the two main sectors rather differed. (Table 5-7)

Table 5: Volumeindex of the main sectors, 1989 = 100, (%)

Year	Plant production	Animal husbandry	Year	Plant production	Animal husbandry
1990	91,0	100,0	1998	73,5	66,3
1991	92,8	84,4	1999	75,3	65,4
1992	69,3	73,7	2000	64,4	67,8
1993	62,6	66,3	2001	84,9	66,8
1994	68,7	63,4	2002	78,9	66,3
1995	70,5	65,4	2003	73,5	64,9
1996	77,1	66,8	2004	109,6	58,0
1997	76,5	62,4	2005	95,2	58,0

2006 +	91		58

Table 6: Production structure (based on current prices %)

	1990	1995	2000	2005
Cereals and legumes	20,5	20,9	23,2	26,5
Industrial plants	5,4	7,1	4,8	8,9
Potato	2,3	5,2	2,4	1,6
Fibrous and mass fodder	3,1	3,2	2,3	2,5
Vegetables	6,3	6,8	7,5	7,4
Fruits	4,1	4,6	4,5	3,5
Vine	4,1	2,5	3,3	5,4
Other plants	3,6	4,6	3,4	3,4
Plant and horticultural products	*49,4*	*54,9*	*51,4*	*59,2*
Cattle husbandry	13,6	11,1	14,0	11,2
Pig husbandry	21,4	18,0	15,7	12,1
Sheep husbandry	1,4	1,0	0,9	0,9
Poultry husbandry	12,4	12,9	16,9	14,0
Other animal husbanrdry	1,8	2,1	1,9	2,6
Living animals and animal products	*50,6*	*45,1*	*48,6*	*40,8*
Total	100,0	100,0	100,0	100,0

Table 7: Main agricultural products (thousand tonnes)

	1986-1990	1991-1995	1996-2000	2001-2005
Cereals	14282	11455	11967	13703
- Wheat	6261	4394	4079	4629
- Mais	6449	5127	6219	7179
Sunflower	753	743	681	939
Sugarbeet	4515	3709	3328	2806
Vegetable	1803	1416	1683	1846
Fruit	1629	1097	912	822
Vine	576	637	671	644
Meat	1300	913	888	894
- pig	626	417	383	344
- poultry	442	336	404	453
Milk	2822	2150	2058	1962
Eggs	249	224	183	182

4. THE MAIN CHARACTERISTICS OF THE HUNGARIAN TRANSITION IN THE AGRICULTURE

The landownership came apart, partly people not living on agriculture got land. Long-lasting uncertainty developed regarding property- and land-structure. (e.g. The matters of the shares of co-operatives or the undivided common landed property were still unsettled in the early 2000's.)

Transition to market economy was characterized by lack of the necessary institutions for a long time that resulted in long-lived market failures, both surpluses and not used market capacities being present. The institutional problems caused unfavorable agricultural income situation, also the decreasing output could have been maintained by using up a considerable part of the capital.

The land-structure is polarized. In the number of enterprises dominate the small-scale farms, but in the land-use there are more large-scale farms. The modern fixed instruments of production are missing on the small-scale farms and as a result of isolated production and distribution these react sensitively to the market-effects.

The transitional processes were not transparent, some shade-mechanisms were to discover and the real transition was followed only partly by the agricultural informational systems.

All these factors resulted in the decrease in the national output generated by the agriculture causing a long-lasting crisis. Actually the latent crisis of the Hungarian agriculture has already started in the early 80's. The share of agriculture regarding the GDP production had fallen under the one third of theprevious level. It is remarkable how low is the contribution of the agriculture to the employment, the export and the investements. (See Table 8)

Table 8: Share of agriculture

Share of agriculture (%) in						Balance of trade (milliard Ft)
	GDP-production[1]	consumption[1´2]	export	investment[1´3]	employment	
1990	12,5	37,0	24,9	8,7	17,0	104,1
1993	5,8	28,7	22,4	3,1	9,3	109,4
1996	5,8	27,3	21,0	3,4	8,3	276,8
1997	5,2	26,9	15,0	3,6	7,9	332,3
1998	4,9	26,5	12,1	3,6	7,5	338,2
1999	4,2	26,2	9,2	3,3	7,1	313,9
2000	3,7	29,2	8,0	2,7	6,9	350,4
2001	3,8	29,6	7,5	3,0	6,2	374,8
2002	3,5	29,9	7,8	3,9	6,2	352,4
2003	4,0	…	7,5	…	5,5	346,4
2004	4,1	…	6,9	3,9	5,3	239,4

Notes: 1. in current prices, 2. included food-products, 3. investments of agricultural organizations

Source: KSH

As agriculture is not able to generate enough income, also the agricultural investments fell.

Although the Hungarian economy has been growing since 1996 the transformational crisis and depression has remained in the agriculture. The agricultural policy was not able to reach a genuine solution regarding the transformational crisis and depression, and the structural problems of the agriculture. The structural changes taking an unfavorable direction, the polarization proceeded as some kind of 'drift'. A comprehensive concept dealing with important questions hasn't been carried out, yet. The agricultural policy has been able neither to manage the transformational crisis, the structural problems emerging in the agriculture nor to take stock of the economic and social political connections of the agriculture in a wider sense and to build these connections into its goal- and tool-system.

5. DIFFICULTIES OF THE EU-ACCESSION

5.1. Difficulties of the EU-accession in the short-run

Following the accession the operational conditions in the agriculture has changed thoroughly. The adaptation of agriculture has had lot of advantages in principle. Besides the free access to the market the EU support has become available. The terms of economic growth started to improve, extensive regional programmes might have been launched at the same time, the real convergence could have been strengthened. But these changes has caused deep problems appearing also in the short run. The most important ones have been the following:

- Disturbances regarding the adaptation of the acquis. The farmers are not well-informed, sometimes there is a complete lack of information. The fulfillment of the measures considering environment and animal protection is a big challenge. But there are things to do also considering food safety. (Following accession certain units of the Hungarian food processing industry were not able to meet the requirements of the EU-regulations. Some of these belonging to the meat industry were given temporary derogation (until the end of 2006)). The areas with depression suffer the consequences of increasing unemployment, the loss of some markets and the disintegration of the connection among local goods.
- Disturbances regarding the adaptation of the EU support schemes. These schemes differ significantly from the old Hungarian ones. The adaptation of the support system has been an institutional issue on the one hand. On the other hand it has created a new framework for the market players.
- Financial difficulties in the short run: cash flow gap.
- Disturbances of the market, shocks originating in the adaptation. The accession resulted in the emergence of the problems considering competitiveness. Market disturbances have occured mainly in the animal husbandry sectors (poultry, pig, milk-production). Further not expected disturbances could emerge as well. (e.g. cheap import of certain horticultural products coming from other Member States, Mediterranean countries or Balkan states with preferential connections to the EU.)

  Regional or nation-wide "vicious circles" could still evolve: the insufficient adaptation of the players with low liquidity and the appearance of competitors without restrictions could have grave consequences. In unfavorable situations these processes could lead to mass bankruptcy. These effects can produce the collapse of the potentially competitive units. The shocks coming from the adaptation might result both social burdens and political tensions.
- Danger of the losses originating in the adaptation. The agriculture couldn't become one of the winners of the EU accession.

  (It is important to mention the balance of transfers included the resources of the EU common budget. The payment of the agricultural supports has been needed for the moderate positive balance. If there are problems with the payments Hungary could become a net payer.)

5.2. Difficulties of the EU-accession in the long-run

The mentioned short-term problems could be 'conserved' for the long run, as well.

- The problems of competitiveness could become permanent. Remarkable distortions of the structure might develop. The production structure is expected to turn extensive. The decrease in the share of intensive farming could result in the production of less added value, less source of agricultural income, the crisis of certain agricultural areas and the long-lasting depression of those areas. The landprices and the farming lease could increase considerably because of the direct aid paid by the European Union based on area.
- Agriculture is expected to contribute less to the national output and sustain less families. The traditional, full-time employment will lose in importance.
- The polarized agriculturel structure is substantially different from the EU-15's structure. The labil structure will remain if no concept will be formed for the policy regarding landed property. This could lead to low efficiency and could cause problems in the absorption of supports.

CONCLUSION

Challenges of agricultural and rural policy

The accession has brought to the surface all the internal structural problems of the Hungarian agriculture and the unsolved questions of the transformation crisis and depression. The successful agricultural adaptation requires the solving of the fundamental structural problems. The handling of the problems is a task not only for the sector's policy but the whole economy and the social policy as well. The liquidity of the possibly competitive market-players has to be increased. At the same time we have to pay attention to those who are squezzed out from the commodity production or who are "self-sufficient".

The long-term national agricultural programme and the national support schemes should help the promotion of a competitive, sustainable system. In order to become competitive enough rapid market adaption, higher productivity and a significant change in the production's structure is required.

The institutional conditions for the adaptation could be improved. The national interests need to be protected in an efficient and professionally well-founded way in the institutions of the EU. During the gradual adaptation of the support schemes of the EU a long-term agricultural policy has to be kept in view in the interests of the Hungarian agricultural producers, the Hungarian agricultural production, the rural society and the entire Hungarian society.

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