THE FARMING SYSTEM OF AGRICULTURE IN THE CONTEXT OF THE AGRICULTURAL POLICY OF HUNGARY AND THE EU *

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SUMMARY

With an overview of the Hungarian farm structure and an attempt at thematic systematisation and conceptual classification, the study has undertaken to demonstrate the complexity of the Hungarian farm structure. The authors have emphasized especially the fundamental differences between subsistence, part-time farms and competitive farms or companies, and based on this, they want to make an attempt to enlighten the necessity to handle differently these different structures in the agricultural policy.

In the study the farm structure of EU member countries and various practices are described in detail. The conclusion is that there is no perfect EU-conformity and there is no such standard of farm structure regulating precisely every detail to which Hungary should adapt entirely.

KEYWORDS: Farm size; EU agricultural policy.

In addition to provide an overview of the farm structure of Hungarian agriculture and an attempt at thematic systematisation and conceptual classification, the study also undertakes to outline the existing farm structure as it has developed to date. Special emphasis is laid on the fundamental difference between

– part-time subsistence farming serving as a subsidiary source of income, and
– farms and companies that belong to the commercial or competitive sector.

Then, based on this fundamental difference, special attention is paid to the necessity of treating these types of farms with distinction in the context of agricultural policy, as the failure to make such distinction is very much to the disadvantage of both groups. The

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competitive sector is disadvantaged because state subsidies have been withdrawn and reallocated for social purposes. At the same time non-competitive farms are usually unable to meet the eligibility criteria of subsidy schemes, or the available resources are of such a limited scale, to begin with, that they are not at all sufficient to improve the living standard of the family. On the other hand, this rather insignificant available 'agricultural subsidy' – while creating the phallacy that these families are sustained by the state as its dependents – excludes them from the groups that are otherwise eligible for social benefits and aids, despite the fact that their production remains far less than what is adequate for the minimal farm size.

The authors are convinced that the same tools cannot be equally efficient to influence both types of farms, i.e. subsidiary subsistence farms on the one hand, and competitive, commercial businesses that produce for and follow closely every little change in the market on the other hand. However, it must be noted that this distinction represents neither value judgment nor hierarchy; it embodies a strictly neutral approach.

The practice followed by the member states of the European Union (EU) is significantly more colourful and versatile than what the Hungarian public generally believes and even what would logically follow from the EU-regulations that are equally hold in each member state. The reasons behind this situation go back to differences in levels of economic development, differences in the role of the agricultural economy, and sometimes only differences in the historical backgrounds. The rather versatile solutions adapted in the various member states is one of the reasons why perfect 'EU-conformity' does not exist; in fact, the EU-accession process offers us quite a wide margin in adjustment. There is no precise – down-to-the-details – standard in the world of farms that Hungary should adapt entirely and by all means. The agricultural farming system of the member states of the European Union is not at all homogenous; there is no such a thing as a standard for farm structures.

In the EU, family farms play the leading role; however, if we take a look at the prominent majority of these family farms, that is the mass of farms that contribute the largest share of the total agricultural output, we see highly specialized and capital-intensive businesses with modern equipment. Small farms exist in large numbers but play only a subordinate role in terms of output. Not only in the EU-member states that, as an exception to the rule, have less developed economies, but also in our own region the reasons behind their existence are fundamentally the overpopulation of the agricultural society and the difficulties of employment. In more developed countries farmers are forced to carry on their agricultural activities only as a subsidiary source of income for reasons such as the diminishing size of farms due to partitioning or the challenges of the rapidly increasing minimal farm size that represents the threshold of equitable income.

In some regions and countries (e.g. in the United Kingdom) large farms that employ, in addition to family members or in many cases exclusively, wage earners and/or employees play a predominant role in agriculture. Germany represents yet another variety in that in its Eastern provinces the farm structure of agricultural production is dominated by the successors of the former agricultural co-operatives, that is companies who currently operate as legal entities (primarily co-operatives, and secondarily limited liability com-

panies) with the so-called 'civil partnerships'[3] – formations of three to five families without legal entity that are in many respects much like Hungary's deposit partnerships – also play a rather significant role.

HUNGARY'S FARMING SYSTEM

The knowledge and experiences accumulated on account of the problems of the Hungarian farm structure and the efforts dedicated to rectifying them come most handy in shaping and developing Hungary's farming system. The most obvious and clearly visible phenomenon that nevertheless is routinely disregarded by the Hungarian observers is the speeding up of farm concentration. No country is exception to this trend; at the same time, there are startling differences between certain countries, and they seem to widen rather than to diminish as time passes. More modernised producers dictate a speed of farm concentration that is impossible to follow for countries whose agriculture is less developed, is characterized by a fragmented farm structure, and is struggling with the necessity of providing labour for the agricultural society. If we disregard these circumstances during the upcoming years of our preparation for accession, and fail to promote the necessary level of farm concentration within the competitive sector – partly by saving existing larger farms and companies and partly by creating new ones – we may have to face a grave disadvantage and substantial losses after our accession.

Apart from the concentration of farms producing for the market another trend that one can readily observe is that more and more small farms of the competitive sector fall behind. They are either forced to continue their operation merely as a non-competitive subsidiary source of income, or, often enough, to terminate their agricultural activities altogether. In an attempt to handle this effect of the laws of economy, the European Union offers economic subsidies and favourable legislation in order to promote the formation of economically viable units, while treating those excluded from the competitive sector as a social issue (relying on such tools as early retirement, a number of separate support schemes, or the promotion of activities offering alternatives to agricultural production).

Small farms that have both the desire and the ability to grow face the same single perspective everywhere: producing for the market and entering the competitive sector. Designing forms of subsidy for these small farms, what must be realistically considered first and foremost is whether they indeed have a chance to grow and to survive in a competitive environment. If the answer is yes, capital concentration must be promoted, small farms must be enabled to increase their resources (lands and production equipment) while, on the other hand, it must be verified that they do indeed have the required capabilities (start-up capital, expertise, etc.).

We believe that today in Hungary the conditions are either not given or are extremely limited for this trend of concentration to become a general rule (see Table 1.). In Hungary, because of the lack of other means of survival, the owners of small farms serving only as a subsidiary source of income have no other choice but to keep their farms, while they hardly have any chance to expand or develop their businesses. The

[3] These formations exist primarily because by forming 'civil partnerships', co-operative members who, for various reasons, are not willing to work alone as self-managed individual farmers, or persons who belong in the group of 're-starters", can avoid corporate taxation, which all economic companies operating as legal entities and all co-operatives are subject to.

situation is very similar in EU-member states, where – despite the fact that incomparably more funds are available for subsidies than in Hungary – small farms are shut down in massive numbers.

Table 1

The structure of individual farms in terms of the size of the land they use, in Hungary, 1994

Farm size (hectares)	Number of	Distribution (percent) of	Total land area (hectares) of	Distribution (percent) of total land area of	Percentage of the total area* represented by	The average size of one farm (hectares)
	individual farms					
1 or less	978 101	81.4	231 665	16.8	3.7	0.2
1.1 to 5.0	173 182	14.5	378 912	27.4	6.1	2.2
5.1 to 10.0	28 723	2.4	198 303	14.3	3.2	6.9
10.1 to 50.0	18 922	1.6	359 588	26.0	5.8	19.0
50.1 or more	2 087	0.1	214 737	15.5	3.4	102.9
Total	*1 201 015*	*100.0*	*1 382 205*	*100.0*	*22.2*	*1.2*

* In comparison to the total agricultural area.
Source: *Az élelmiszergazdaság 1994. évi fejlődése*. (1995) Hungarian Central Statistical Office. Budapest. 47. p.

Hungary cannot afford to shut down masses of small farms within a short period of time. The reasons are social and societal. Consequently, the state must act as a social welfare care provider. At the same time, the future of these farms is an issue to be addressed and managed also from the aspect of agricultural production. While rationalisation of production must be promoted also among small farms that are not viable on their own and are not competitive because of their size. In our view the following options are available to choose from:

– we promote their growth and support farm concentration among those who have the necessary capabilities, that is, we help them enter the competitive sector;
– we support land selling and 'farm shut-down' whenever it leads to the development of more viable production units; or
– we provide separate support for those subsidiary farms that are not suitable for, or not even interested in, survival on their own, provided they are willing to join a modernization process based on voluntary co-operation ('joining forces') in production and sale, or even in processing.

If we take a realistic look at Hungary's situation today, the first two solutions can barely become widespread, partly because of the lack of capital, and partly because of the circumstances, namely the farmers' dependence on subsidiary farms for their mere livelihood. However, the third version – joining forces or co-operation – is indeed a viable solution, and, all things considered, it is undoubtedly the cheapest method of small farm modernisation. We believe that this method is also the most cost-efficient and effective way for the state to exercise its function as a social welfare care provider.

Small farmers who wish to carry on their agricultural activities in the 'traditional way' – that is, small producers primarily involved in subsistence farming – receive state support in the form of tax benefits, a system that has evolved gradually over the past few decades. This practice, of course, must be maintained, but must be extended to also include small farms that venture, alone or in co-operation, to produce for the market. This policy of extension must also be followed in the case of all other employment and non-migration type subsidies that draw their resources from the social and regional development budgets. In other words, all persons engaged in small-scale production should be eligible for all these types of state subsidies, whether small production is their sole activity or not, whether they produce only for subsistence or also for the market. The amount of subsidies, however, should depend on the volume of such production, the income generated and the total family income. By all means, this is an issue where the principle of social justice must absolutely prevail.

We believe that today's 'mixed set' should first of all be grouped into two categories on the basis of the scale of production, distinguishing between producers under the minimal farm size and producers larger than the minimal farm size; then we should further categorize the latter to establish the following groups of individual farms:

– household farms that are under the minimal farm size and are therefore not considered *per definitionem* agricultural farms;
– individual farms that are larger than the minimal farm size and that fall within the definition of the category;
– part-time and second-job subsidiary farms;
– full-time family farms; and
– private agricultural businesses.

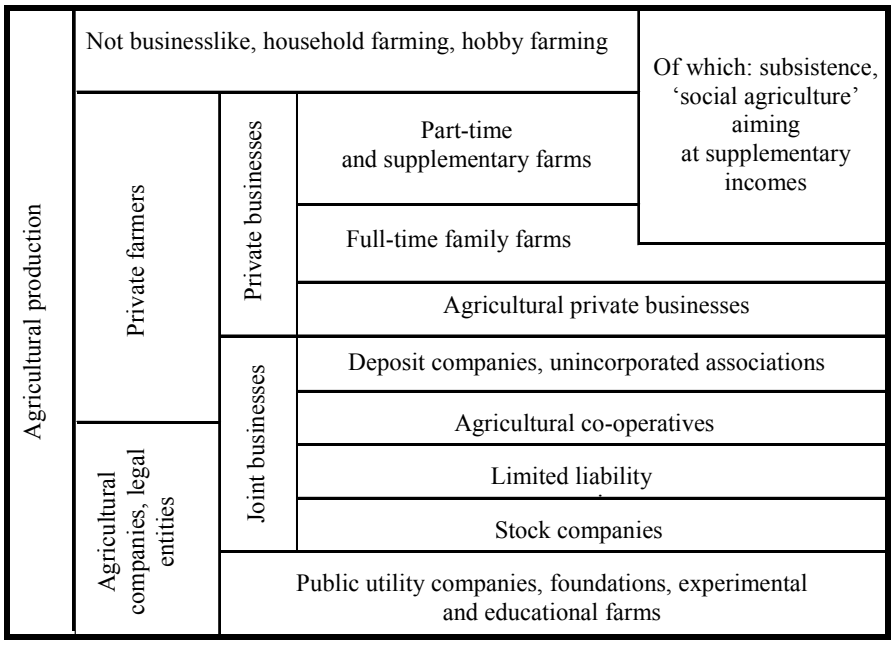
Drawing the line at a certain threshold,[4] the production of families, whether they are engaged in agriculture solely or in addition to other activities, is negligible to the extent that it is not even worth treating them separately for reasons of either taxation or statutory agricultural regulation. Therefore, their exclusion from the circle of *per definitionem* agricultural farms offers an opportunity not only to discontinue taxation that is known to never generate a return, but will also legalize the tax-free status of certain insignificant incomes that today the tax subjects must either state or ignore in their tax returns, making taxation a 'matter of good conscience'. It is nevertheless necessary to collect statistical information also about those producers who are not considered *per definitionem* agricultural farms; however, this must be done in a more cost-efficient way such as by sampling. We must be aware of their role in all issues that are relevant to them or that concern them in any way; however, this is something very different from the present requirements of the process of taking account of agricultural farms for statistical and tax administration purposes.

If we attempt to set up a realistic and lasting classification of the farming structure, we must first define clearly and unambiguously what an agricultural production unit is. The core unit is the family, which is a 'production unit' in itself, just like a workshop

[4] This limit may be 1 hectare of arable land, or a plantation of equivalent capacity, or equivalent livestock, or even value of production.

in small-scale industry, a shop in retail trade, etc. We believe that maintaining today's obsolete practice is becoming more and more unacceptable; there is no reason why a single household should be considered – even if only 'on paper' – as many small agricultural production units as there are adult family members sharing the income generated by their joint agricultural activities. Therefore the category of the 'farm' must represent a lasting frame of reference – similarly to the household or the family – in which the number of persons could just as easily change as the nature of the production activities and all this without the farm itself changing.

If we consider not only private producers but also farms involved in collective production, or even producers with a legal entity, the farm and company structure of Hungarian agriculture can be categorized as follows:



After the political and economic transformation of the 1990's, agricultural production in Hungary, yet another time, had to assume social responsibilities, and even to a larger extent than in previous decades. However, because of the necessity to preserve the financial balance of the country, this can only be a realistic objective if the competitive sector is strengthened. After the adoption of the statutory regulations concerning the conversion of agricultural co-operatives and the privatisation of state farms, the institutional structure of Hungarian agriculture mostly loosened or broke up. However, the distribution (reallocation) of agricultural assets and the compensation of former landowners through land redistribution rarely created the ownership and farm size necessary for the birth of independent, self-sustaining, viable farms. Today, about one and a half million small landowners exist, most of them retired and/or urban citizens, who partly let their small lands on lease, partly produce for their own consumption.

Besides the diminishing of the farm sizes due to farm partitioning, rural unemployment in Hungary is about to reach the level of the 1930's. At the same time, the rural population bears an increasing load. Despite the fact that the productivity and profitability of their work as well as the level of the social benefits they receive are by far under the average of the Hungarian society as a whole, 100 active earners support 250 to 280 persons. By today, the idea that agriculture could play a primary role in employment policy has proven quite an obvious misconception. Further, it is also obvious that the earlier rates of employment of the sector cannot be reinstated, and, in fact, sectorial rates of employment will continue to decrease. While household farming and part-time small-scale production for subsistence may be able to provide some sort of basic livelihood for the rural population, it is entirely unsuitable for making a living independently, let alone for stepping into the place of the society's social welfare providing system.

THE FARMING SYSTEM OF THE EUROPEAN UNION

If we study the agricultural statistics of the EU, we can observe the following proportions and major trends of change:

– the number of those living from agriculture and the employment capacity of the agricultural sector are continuously decreasing;
– there is a rapid decrease in the number of farms;
– all production indices reflecting concentration are increasing at a rate of speed never expected;
– there are great differences between the average farm size indicators of the different countries and regions that do not seem to decrease despite the common agricultural policy;
– the differences between the outputs of the agricultural sector of the various countries prevail in the long run; in fact, they are growing in the case of certain countries;
– farm incomes vary greatly across the various member states; differences grow rather than decrease despite the subsidy system.

One must therefore accept that the agricultural policy of the EU, which is probably the most resolute globally in its attempt to preserve traditions even at the price of financial sacrifices of a scale never seen before, is moving away from its declared principles. The traditional model of the family farm is falling apart, or, at least, it is in turbulent conversion. The majority of full-time family farms are not small-scale farms any more; they are more and more often capital-intensive businesses.

Taking the average of the 15 member states of the EU, those working in agriculture only represented 5.3 percent of all earners in 1995 (down to 4.8 percent in 1998). This average, however, hides great national differences, the extremes being the United Kingdom at 2.1 percent and Greece at 20.4 percent. In comparison, Hungary's 8.5 percent is a bit more than one and a half times bigger than the EU-average, while Greece's national figure is almost twice Hungary's. However, while in Hungary 1 percent of those working in agriculture contribute 0.93 percent of the country's GDP, this rate of contribution is only 0.45 percent in the EU. In other words, one full-time worker in Hungary's declining

agricultural sector still contributes about twice as much to the gross domestic product as his or her counterparts within the EU.[5]

We get a more realistic comparative picture if the index selected as the basis of comparison is not or not only the ratio of agricultural workers, which is totally insensitive to the density of population, but also the number of people working in agriculture per 100 hectares of agricultural area (see Table 2). In this comparison, the EU-index of 5.7 persons per 100 hectares is inferior to Hungary's more 'favourable' 5.0 full time working persons per 100 hectares. However, if we try to convert the number of part-time workers into the 'Annual Work Unit' (AWU) used within the EU, the Hungarian index will increase significantly, but hardly more than by 40 to 50 per cent. Using this method of computation, Hungary's figure at about 7 persons per 100 hectares is right in the middle range of the member states, more or less in the same category as Austria, Belgium and Finland. In the light of this, the complaint that is often heard both in Austria and in other countries about a massive workforce being released by Hungarian agriculture is based on a grave lack of information rather than on any justifiable actual threat. Nevertheless, one should not forget to mention that Hungary is hardly doing its best to combat these common delusions by publishing realistic information of this nature.

Table 2

The supply of agricultural labour and its changes within the member states of the EU

Country	AWU per 100 hectares of agricultural area			Change in the supply of labour 1995/1980 (percent)	
	1980	1990	1995	per 100 hectares	per farm
Austria	–	9.9	5.5	–	–
Belgium	8.7	7.0	5.8	66.7	100.0
Denmark	5.9	3.4	3.8	64.4	107.1
United Kingdom	3.4	2.9	2.3	67.6	72.7
Finland	–	7.5	8.5	–	–
France	6.3	4.5	3.6	57.1	93.3
Greece	22.5	18.6	17.8	79.1	100.0
the Netherlands	11.9	11.2	10.5	88.2	118.8
Ireland	6.1	5.6	5.1	83.6	100.0
Luxemburg	7.0	5.0	4.2	60.0	94.4
Germany	8.6	6.0	4.1	47.7	108.3
Italy	13.8	12.9	12.4	89.9	87.5
Portugal	34.9	21.1	14.9	42.7	86.7
Spain	–	4.7	4.3	–	–
Sweden	–	3.1	2.9	–	–
EU 12	–	6.7	5.7	–	–
EU 15	–	6.7	5.7	–	–

Source: EUROSTAT. Agriculture Statistical Yearbook, 1997.

The number of people working in agriculture is rapidly decreasing in every member state of the EU, and, in spite of several supporting measures, fewer and fewer people find

[5] The Hungarian data are biased and seem more favourable than they are, as there are millions of part-time workers who are not taken into consideration when defining the size of the labour force.

their livelihood directly in agriculture. Although farms are becoming larger and larger, technological advances mean that less and less human labour is necessary. Consequently, farms offer a living for less rather than for more people as time passes.

As it is fairly obvious from the figures of Table 3, the average area of farms is increasing in rather small steps, but quickly, if taken in the average of the EU-member states. This 'average of averages', however, says very little about actual farm sizes and changes in the distribution of farms by size, not unlike the often-quoted indicator of 17.5 hectares of agricultural area per farm. The major reason is that part-time farms, which represent quite a large number, are also included in the denominator, while their actual output is rather insignificant.[6]

Therefore it is inevitably important to look behind the all-enveloping average figures. In order to facilitate this, two detailed tables have been included, which represent, on the one hand, the changes in the size of farms over the past few years (see Table 3), and, on the other hand, the change in the distribution of the total agricultural area as a function of farm size, which indicates a rather significant change over the past one and a half decades (see Table 4).

Table 3

Changes in the average farm size in EU-member states

Country	Average farm size (hectares)			Change 1995/1980 (percent)
	1980	1990	1995	
Greece	3.6	4.3	4.5	126.0
Italy	5.5	5.6	5.9	107.5
Portugal	4.3	6.7	8.7	202.2
Austria	–	–	15.4	–
the Netherlands	13.7	16.1	17.7	128.9
Belgium	12.3	15.8	19.1	154.5
Spain*	12.9	15.4	19.7	152.4
Finland	–	20.7	21.7	–
Ireland	22.6	26.0	28.2	124.8
Germany	14.4	26.1	30.3	210.6
Sweden	–	32.9	34.5	–
France	23.3	30.5	38.5	164.9
Denmark	23.8	34.2	39.6	166.5
Luxemburg	25.0	31.7	39.7	158.5
United Kingdom	63.7	67.9	70.1	110.2
EU 12	12.8	15.0	17.3	134.7
EU 15	–	–	17.5	–

* As for Spain, only the 1983 figure is available.
Source: EUROSTAT. Agriculture Statistical Yearbook, 1998.

Apart from the decrease of the number of farms the most important phenomenon observed between 1980 and 1995 in the average of the 12 EU-member states that we can

[6] Both in Germany and in France, about two fifths of the agricultural farms belong to the category of part-time farms, and their output is about 10 and 5 per cent of the total agricultural output.

study is the decrease by about 30 percent of the agricultural area cultivated by farms smaller than 20 hectares. This category of farms only held 20 percent of the total cultivated area. The farms of size between 50 and 100 hectares increased by over 20 percent, while those over 100 hectares in size increased the area cultivated by over 50 percent. In other words, whether we like it or not, the privilege of growth is reserved for the larger farms. Table 4 serves well to illustrate the point that the growth threshold – the dividing line between farms that decrease in number over time and farms that increase in number over time – is only lower in countries that struggle with agricultural overpopulation; however, this 'watershed' is higher than 20 hectares everywhere, even in Mediterranean countries, with the single exception of Portugal.

Table 4

The average change in the agricultural area cultivated by farms of the various farm size categories in EU-member states between 1980 and 1995

Country	Less than 5	5 to 20	20 to 50	50 to 100	More than 100	Total
	hectares of agricultural area (Index: 1980=100)					
Belgium	58.4	52.4	102.3	160.4	183.1	95.3
Denmark	10.2	48.0	59.9	136.5	217.9	93.4
United Kingdom	67.2	90.0	83.6	94.4	100.1	96.2
France	59.5	37.5	54.2	116.6	215.2	96.5
Greece	72.7	93.1	177.8	190.8	274.4	97.6
the Netherlands	83.9	57.1	103.8	186.5	200.6	98.1
Ireland	45.9	60.5	88.3	101.9	106.4	85.7
Luxemburg	55.6	41.7	38.0	147.3	530.8	97.5
Germany	57.8	54.0	79.0	209.2	1012.9	140.5
Italy	83.2	82.2	122.2	115.0	83.8	92.6
Portugal	76.5	136.6	174.6	158.4	118.8	118.4
Spain*	65.9	79.0	87.0	107.0	138.6	107.3
EU 12**	72.7	66.8	78.0	121.1	150.1	103.1

* As for Spain, only the 1983 figure is available.

** The reunification of Germany effects the average figures. Without the German figures, the average of the 50 to 100 hectares category would be 114 percent instead of 121 percent; the average of the more than 100 hectares category would be 129 percent instead of 150 percent.

Source: EUROSTAT. Agriculture Statistical Yearbook. 1998.

Even in the case of the Netherlands and Belgium – both capital-intensive but lacking in available agricultural area – growth only begins at 20 hectares, although this growth is minimal, exactly because of the lack of available agricultural area. In the United Kingdom, the picture is somewhat different than in other countries, primarily because the formation of healthier farm sizes already concluded in the United Kingdom, where present-day changes are less spectacular.

Since the area of agricultural lands is limited, farms in most countries of the European Union can only increase their lands to the disadvantage of one another. At the same time, livestock can be increased comparatively freely, at least up to the limits the EU was recently forced to introduce because of environmental considerations. Today, there are rather large differences between the various member states in terms of stock-

ing density indices, and these are most of the time in negative correlation with the supply of agricultural area.

In Mediterranean countries, the index is 0.4 to 0.8 animal units per 1 hectare of agricultural area; in Germany, this index is 1.1; however, in Belgium it is up to 3.2, while in the Netherlands it is as high as 4.0. In these latter two countries, as well as in the western provinces of Germany, livestock can hardly be increased any more as agricultural subsidies are tied to the maximum stocking density, and/or there are special incentives for keeping stocking density at lower levels.

Animal breeding also shows significant concentration in the countries of the EU. What is primarily worth paying attention to is the rather amazing rate of increase in the levels of livestock in hog farms primarily in Belgium, Denmark and Ireland. It is also worth mentioning that there is no country that can be an exception to this speeding process, while the differences between the individual countries are astonishing, and they are growing rather than diminishing. More modernised producers dictate a speed of concentration that is impossible to follow for countries whose agriculture is less developed, is characterized by a fragmented farm structure, and is struggling with the social necessity of providing labour for the agricultural society instead of facing the challenges of competition.

The actual distribution behind the average livestock figures is, again, worth taking a closer look at. For this purpose, we processed head of stock figures for dairy cows, for the total cattle stock, and for the pig stock (excluding piglets). In six of the 12 member states of the EU, over 90 percent of the pig stock is raised in farms with an average head of stock of over 200; in seven countries, over 80 percent of the total pig stock is kept on farms with a total head of stock in excess of 400; what is more, in eight countries over half of the pig stock (and in three of these countries, over two thirds of the total pig stock) is fattened by farms keeping over 1,000 animals each.[7]

In the European Union, farms are not only categorized on the basis of the size of the agricultural area they cultivate, as this is inaccurate and often incomparable. Therefore, in addition to size categorization, a homogeneous measuring system is set up on the basis of the value of the normative indicator of the farm's profit generating capacity, namely its Standard Gross Margin (SGM). A common unit of measure is used for this comparison, specifically, the so-called 'European Size Unit' (ESU); one ESU equals 1200 ECU which is approximately equal to 300 thousand HUF. The results of these measurements are also published.

Table 5, which includes the details for each country, is based on these published results. There are great differences between various member states of the European Union in terms of the farms' capacity to generate income. The Netherlands leads the list, followed by the other two Benelux states with the United Kingdom right behind them. In these countries, about one third of the farms realize over 40 ESU worth of income, that is, contribution, which is approximately 13 million Hungarian forints. At the other end of the scale we find Italy, Portugal, Spain and Greece; in these countries, half or even more of the farms are under the annual income level of 4 ESU, that is, their income is less than 1.3 million HUF.

[7] *Situationsbericht 1996*. (1996) Deutscher Bauernverband, Bonn.

Table 5

The distribution of farms on the basis of their capacity to generate income in 1995

Country	Under 4 ESU	4 to 40 ESU	Above 40 ESU	*Total*
	percent			
Austria	37.0	59.6	3.4	*100.0*
Belgium	17.1	46.2	36.7	*100.0*
Denmark	6.2	57.2	36.6	*100.0*
United Kingdom	25.7	46.6	27.7	*100.0*
Finland	25.4	69.0	5.6	*100.0*
France	25.2	51.0	23.8	*100.0*
Greece	45.1	54.2	0.7	*100.0*
the Netherlands	1.7	40.3	58.0	*100.0*
Ireland	26.7	64.2	9.1	*100.0*
Luxemburg	20.6	47.0	32.4	*100.0*
Germany	29.3	52.9	17.9	*100.0*
Italy	59.0	38.1	2.9	*100.0*
Portugal	58.1	40.5	1.4	*100.0*
Spain	49.9	47.2	2.9	*100.0*
Sweden	29.7	54.2	16.1	*100.0*
EU 12	46.4	45.4	8.2	*100.0*
EU 15	40.0	40.6	19.4	*100.0*

Source: EUROSTAT. Agriculture Statistical Yearbook, 1997.

Table 6

The variation of the farm income (in real terms) per one full-time worker and its growth as compared to the 1980 level in the average of the 12 member states

Country	In farming years			
	1980/81	1985/86	1990/91	1994/95
	percent, EU 12 =100			
Belgium	180	225	232	185
Denmark	168	213	210	205
United Kingdom	139	151	182	183
France	122	127	167	145
Greece	41*	51	47	39**
the Netherlands	224	244	275	187
Ireland	73	79	92	87
Luxemburg	138	158	173	145
Germany	93	112	131	111
Italy	66	67	83	73
Portugal	–	29	22	14
Spain	–	80	69	97
EU 12	100	100	100	100
EU 12 (Index: 1980=100.0)	100	110.8	109.8	133.3

* 1982 figure.
** 1994 figure.
Source: Agrarbericht, 1982 and 1987 figures.

Considering the rather scattered distribution of farms with different capacities to generate income, it is hardly surprising that there are also significant differences among the various countries in terms of actual farm income figures, and, consequently, in the income levels of the farmers (see Table 6.). Unfortunately, the EU has no statistical surveys concerning part-time farms, which means that, yet another time, we must rely on the data available for Germany. But even Table 6, which is an overview of full-time farms, will give the reader a sense of how greatly the small size of the farms effect their farm income per one full-time worker. It is also worth mentioning that these great differences between the individual countries did not balance out over the 15 years period under review. True, Ireland and Spain significantly improved their past disadvantaged situation; however, Greece only managed to keep its position, while Portugal suffered further decline. Since incomes increased in real terms, countries that kept their positions witnessed an improvement in the living standards of their farmers.

These differences are, however, not only characteristic of the member states of the EU, but also – and even more so – of the agriculture of the various regions. A fairly recent study that analyses changes in farm income levels on the basis of net value added figures per one labour unit (LU) compares two periods (1978 through 1989 and 1991 through 1993) and groups the regions into two categories. The first category includes the regions where the net value added per one labour unit is lower than the average of the 12 member states, while the second category consists of those regions where it is in excess of the EU average. Then the study proceeds to further group the regions in both categories based on the direction of the trends observed. Among other things, the study concludes the following.

– The differences between various regions in terms of farm incomes are significantly greater than the differences between countries. Despite all efforts, the differences among the regions continue to grow, as a result of keen competition. Within the period under review, the income of farms located in regions that enjoy good local conditions increased by 26 percent as compared to the average, while regions with unfavourable local conditions saw a 15 percent decline in farm incomes, with mountain farms suffering a decline of 45 percent as compared to the average.

– Regions with a higher than average income include all regions in Denmark, the Benelux states, France and Western Germany, the whole of the United Kingdom without Northern-Ireland, but even three regions (Lombardia, Emilia-Romagna, Sicily) in Italy and four (Castilla-Léon, Castilla-La Mancha, Navarra) in Spain. However, the group of regions with a favourable overall result includes regions where farm income levels are on the decline. These include Belgium, Luxemburg, and the Netherlands, plus a few regions in France, Germany, Italy and Spain. These regions are either mountain regions or regions that are disadvantaged for other reasons.

– Nevertheless, even the group of lower than average farm income levels includes regions where the programmes designed to even out differences have been successful and the profitability of farms is improving. Most of the regions showing improvement are in Ireland, while certain regions of Spain, Italy are also successful at improving their agriculture.

In the group of lower than average farm income levels, all the regions of Portugal show a trend of further deterioration, as do some regions in Northern-Ireland, most re-

gions in Greece, and some of the disadvantaged (mountain) regions of Spain and Italy. The major reasons – and this is an invaluable lesson for us – are the lack of capital and the overly fragmented farm structure, which in itself is already an obstacle of modernization and a barrier in front of reasonable capital involvement.

RECOMMENDATIONS – IDEAS

If we follow the practice of the EU and, taking Hungarian reality as a starting point, we decide that producers having an agricultural area of 1 hectare or equivalent production capacity do not qualify as *per definitionem* farms, then – on the basis of the 1994 census of Hungary's economic structure – we 'separate' approximately 4 percent of the total agricultural area, while at the same time forming a group that includes over 80 percent of what are today considered 'small farms'. Considering Hungary's economic and social circumstances realistically, we can prove that the group of farms having an agricultural area of 1 to 5 hectares are also unable to offer socially acceptable opportunities for independent farming. If families owning small farms do not have any income other than the farm income, then even farms belonging to this group will be primarily defined by their social function, therefore it is obvious that their production activities will never be competitive.

These farms represent the second largest sub-group of what is today understood as the group of private producers; in figures, they amount to 15 percent of the total of private producers, holding another 6 to 8 percent of the country's agricultural area, based on the 1994 data. Put together, the two groups still do not represent too much in comparison with the agricultural areas at the disposal of the competitive sector. There is, however, a real danger. Specifically the trend of farm partitioning that has prevailed since 1994 may go on and small farms may massively become non-viable if large farms continue to loose their agricultural areas, be shut down and liquidated one after the other. Considering the results of our most recent survey, whereby agricultural co-operatives lease an average of 2.6 hectares from 662 individuals each, it is easy to anticipate that every liquidated co-operative farm contributes significantly to the mass of non-viable farms that do not even reach the minimal farm size or are very small in size. In essence, our recommendations are as follows.

1. Household farms (smaller in size than 1 hectare of arable land, or 0.2 hectares of plantation, or 400 square meters of cultivable area covered by glass or plastic or – in the case of livestock farms – 2 notional livestock units) should not be considered *per definitionem* agricultural farms in the future. Production carried out on household farms should not be subject to taxation; on the other hand, household farms should not be eligible for receiving any sort of agricultural development subsidy either. Their eligibility for social aids should be determined on the basis of their income from other activities. Families should be classified as falling within this category on the basis of the physical size of production resources as stated by the registers and certificates of the municipalities.[8]

2. The second category includes part-time or second-job subsidiary farms larger in size than household farms but having no more in terms of production resources than 5

[8] Those belonging in this category can also be defined on the basis of the present system of taxation: families where the annual farm income is less than HUF 250 000 are not considered to have an agricultural farm subject to taxation. Taking into account that in the European Union – for purposes of simplification – the 1-hectare farm size (or the equivalent plantation size, livestock etc.) is usually considered the threshold limit, we believe that this is the method we should follow.

hectares of arable land, or 1 hectare of plantation, or 1,000 square meters of cultivable area in a glass or plastic film greenhouse, or – in the case of livestock farms – 10 notional livestock units.[9]

This farm size should also be taxed on the family basis, either using a flat rate assessed on the basis of the farm's production resources, or in accordance with the effective personal income taxation, declaring the income and writing off documented expenses up to a maximum of 20 percent. Part-time or second-job farming is always considered to fall within the category of social farming whenever the family's agricultural income (which is estimated as a certain percentage of the farm turnover) is not less than 50 percent of the total income of the family, but the family's total income is not more than the minimum guaranteed wage multiplied by the number of wage earners in the family.

In the current situation, it may easily happen that certain families have no significant income from any other source. Therefore if the family's farm income is in excess of 75 percent, and the total annual income per one adult family member is less than the minimum guaranteed wage, it is justified to provide the family with separate social aid.[10] It is, however, very important to emphasize that these aids should not come from the agricultural development funds but from the social funds.

3. The third category is the family farm. This category is larger in size than the first two but the production resources do not exceed 30 hectares of arable land, or 3 hectares of plantation, or 5000 square meters of cultivable area covered by glass or plastic or – in the case of livestock farms – 50 notional livestock units, with a turnover of HUF 15 million or less. Family taxation should be applied, with significant additional tax benefits if – and only if – farming is carried out as a full-time activity. Taxation, as in the second category, should either be presumptive taxation depending on the size of the farm's production resources, or taxation based on cost itemisation. Family farms do not fall within the target category of long-term social aids.

Nevertheless, we must admit that a family with production resources just above the minimal farm size is hardly able to make a decent living today in Hungary. Therefore if the total of all incomes (including the farm income and all other incomes from external sources) per one family member of working age is under the minimum guaranteed wage, the family may be a justified target for temporary social aid. In their case, the state is first and foremost responsible for promoting the modernization of production and the provision of development subsidies designed to assist the formation of farms of a size that makes them fit for competition. Quite obviously, this kind of subsidy must be funded from the system of agricultural subsidies.

4. The fourth category is the agricultural private business. Such business is either larger in size than the family farm, or is considered as such based on the owner's decision electing to operate, despite the limited size, in this form for other considerations such as eligibility for VAT refund on documented cost items. Agricultural private businesses should be taxed on the basis of cost itemization, with significant additional tax benefits if

[9] Again, we can define this group on the basis of the present system of taxation: this category includes farms or farm-owning families whose annual turnover is not more than HUF one and a half million.

[10] Primarily, this is the category that is especially affected by the disadvantages of the elimination of stabile agriculture jobs. Therefore if they must make their living primarily from their inadequate agricultural production, and the family has no other significant source of income, they must be eligible for increased benefits, complete tax-free status, and additional separate subsidies.

– and only if – farming is carried out as a full-time activity.[11] Although this group of farms would not be eligible for flat rate taxation – such an arrangement would be in conflict with their eligibility for claiming back value added tax amounts, which is done on an itemized basis – they should represent the primary target group of agricultural benefits promoting development and modernization in line with the general society's interests in improving the competitiveness of production.

This grouping, and especially its quantitative size criteria, must be thoroughly revised from a professional aspect; what is more, the quantitative criteria must be increased from time to time. Our experiment may seem rather ambitious; we still decided to carry it out, driven by our intention to contribute to the professional discussion of the issue as soon as possible. Also, we hope that the work we have done will contribute to the success of the general agricultural census. We expect to be able to elaborate a more solid foundation for our recommendations and to formulate them in a way that yields itself easier to practical use once we have the results of the comprehensive survey of Hungary's farm structure.

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[11] We believe that persons who have an appropriate source of income and are engaged in agricultural production activities as a secondary source of income should not be eligible for any agricultural subsidies and other benefits granted for social considerations. However, they should be eligible for all agricultural modernization subsidies, provided they meet all other relevant criteria (registration, farm size, trade qualification, development plan, etc.).