

# **The European Regional Policy in Hungary. An Evaluation of the Objectives and Instruments for the Cohesion**

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**„What was expected, what we observed,  
the lessons learned.“**

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## ABSTRACT

The paper underlines the progresses Hungary undertook during the pre-accession process and after the European Union membership in regional economic development. Using official documents of the European Institutions, statistical data provided by Inforegio, Eurostat, the Hungarian National Institute of Statistics, FADN-DG Agriculture and AKI I've evaluated the impact of the European objectives and instruments for the cohesion (Structural funds and the Cohesion fund) on the convergence of the Country with the European parameters. The results obtained show a slow evidence of economic convergence but also the emergence and increase of internal divergence between 'winning' and 'loosing' counties, these last being prevalently agricultural, with problems of re-conversion increased by the effects of the post-1989 legislative provisions. This outcome derives partly from the lack of projecting abilities (and opportunism) of the Hungarian governments but it's also linked to the often unsuitable guidelines and weak monitoring of the European Institutions.

**Keywords:** European regional policy; convergence; cohesion; agricultural reforms.

## INTRODUCTION

The European Union 'East' enlargement occurred on 1st May, 2004 (and its prosecution to Romania e Bulgaria in 2007) has represented a great challenge for both the European institutions and the new member States: in fact, this is the first time that ten Countries join the Union together, bringing about 500 millions of new European citizens, doubling the hectares committed to agriculture and the labour force in that sector<sup>1</sup>.

The governments of eight of the candidate Countries, that were under the pervasive influence of Moscow till 1989, had to continue the reforms required by the transition process while trying to accomplish the requirements established by the EU Commission in the pre-accession document to get the membership. On the other side, the European institutions had to cope, in the guidelines proposed to the joining States, with 'new' problems linked to the different needs for intervention in those Countries due to their political, economic and social history of the second half of the XIX century<sup>2</sup>. In order to help the future members to start a process of external and internal convergence (ex art. 158 ET) to narrow the development distance from the EU-15, and to reduce the differences of growth among their regions, the European Commission has predisposed and co-financed several means and programs of intervention, the most important of which (in terms of financial assistance) are the Structural Funds and the Cohesion Fund<sup>3</sup>. At the same time, the European Institutions had to reassure the old members that opposed the enlargement because of the fear of losing the community financing aids in the redistribution to the new-and poorer-incomers, specially the funds directed to the Common Agriculture Policy<sup>4</sup>.

The aim of this paper is to conduce a preliminary evaluation of the objectives and instruments offered by the EU to Hungary to undertake the problems emerged during the ongoing transition process, to fulfil the tasks of the *Aquis Communautaire* before the membership and to establish a convergence path. I've chosen Hungary because it has been considered<sup>5</sup> one of the 'best performers' among the transition Countries and the new European States.

Interestingly, while the Country is showing a slow path of economic external convergence with the other EU member States, it's experiencing a quite new phenomenon<sup>6</sup>, the fast growth in internal divergence

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<sup>1</sup> Forgács, C.: *The Challenge of Integrating CEEs Agriculture into the EU*, in Studies in Agricultural Economics 2004. Num 100. AKI, Budapest.

<sup>2</sup> Blanchard, O.: *The Economics of transition in Eastern Europe*. Oxford. Clarendon Press. 1997

<sup>3</sup> [ec.europa.eu/regional\\_policy/index\\_it.htm](http://ec.europa.eu/regional_policy/index_it.htm)

<sup>4</sup> EC. *Enlargement and Agriculture: Successfully integrating the new Member States into the CAP*. Issues paper. Brussels, 30.1.2002 .SEC(2002) 95 final

<sup>5</sup> WB Report on transition Countries, 2002.

<sup>6</sup> During the past regime, regional inequality was already present in Hungary but a very lower lever.

between the North Western region, together with the area of Budapest, and the Eastern border counties. These last ones, mostly dependent on agriculture, have been seriously and negatively affected by the reforming Laws adopted in the agricultural sector<sup>7</sup> that can be considered co-responsible for the increase in internal inequality.

Contemporary I've examined the role played by the European institutions, especially by the European Commission as promoter of the objectives and instruments reserved to Hungary by the cohesion policy and I've proposed a preliminary evaluation of them. Probably, establishing a reform process more focused on the knowledge of the internal reality of the Country, and considering the problems emerged by the pre-accession evaluation reports, a lot of the problems Hungary is experiencing nowadays wouldn't appear in a so pronounced way. The scarce ability of the succeeded Hungarian Governments in the preparations of the national development programmes (especially Ardop and NRDP<sup>8</sup>), also because of the little experience in that, would have been restrained by a stricter control of the European Commission and its Committees.

The evaluation of the efficiency of European funds in the new member States and their effects on the convergence is quite new both for the structure of the analysis proposed and for the implications found. In a moment of *impasse* for the European Union, dealing with internal institutional reforms and planning a new enlargement round (Balkans and Turkey), it's important to understand the whole impact of Community aids for new members to justify financial disbursements to the sceptical Countries and to learn from this experience to better face new possible joining.

The structure of the paper is the following: I start with an overview of the current regional reality in Hungary, underlining its main features and problems (mainly explosion of internal disparity) emerged in the last years and examining the roles of the authorities responsible for that. In the second chapter I introduce the European instruments for the cohesion policy in Hungary, analyzing the contribution given by the Structural Funds and the Cohesion fund. In the third one I show the convergence/divergence effects at the regional level while the last chapter is focused on the analysis of the impact of the agricultural reforms on the structures of production in that sector, underlining how the great division of land hasn't increased the quality of production neither the incomes of those living of agriculture.

## 1. AN OVERVIEW OF REGIONAL REALITY IN HUNGARY.

Thanks to its central position between Europe and the Balkans, to the presence of the river Danube and for its fundamental historical role in the European facts<sup>9</sup>, Hungary represents an important gathering point between Eastern and Western Europe. Nowadays the Country has circa 10 millions inhabitants<sup>10</sup>, it extends for 93.029 km<sup>2</sup>, 96% of which considered mainly agricultural following OCSE classification. Its main regions, classified followed the NUTS 2 parameters, are seven: Central Transdanubian, Western Transdanubian, Southern Transdanubian, Central Hungary, Northern Hungary, Northern Great Plain and Southern Great Plain. Since 1998, as required for acquiring the membership, Hungary has introduced a regional and sub-regional territorial classification, counting also 19 counties (NUTS 3 level) other than the capital, Budapest, 168 sub-regions (LAU 1) and 3.145 among cities, towns and villages (LAU 2), all of them with their own independent local governments<sup>11</sup>. The division in counties dates back to the XI century, as a difference from the most of the other new member States where the division is recent and often introduced just after the membership agreements (in Hungary, already before the World War I there were 70 counties).

It's important to underline that, as a consequence of the decentralization process started after the system change, the local governments are now independent from the Central one and there's no hierarchy among them: their duties and rights are established by the *Self Government Act*. By the way, decentralizing

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<sup>7</sup> I refer here to the Restitution Legislation in four Acts (1991) and the Law on Cooperatives in two Acts (1992).

<sup>8</sup> The official documents are often missing in quality and in the reliability of the Statistical data proposed.

<sup>9</sup> Bianchini, S., Privitera, F., *Guida ai Paesi dell'Europa Centrale, Orientale e Balcanica. Annuario politico-economico, edizione 2003*, Il Mulino, Bologna, 2004.

<sup>10</sup> The data refers at 2005. Source: Inforegio.

<sup>11</sup> <http://forum.europa.eu.int/irc/dsis/regportraits/info/data/en>

governmental powers hasn't avoided the coming out of efficiency and coordination problems, especially in dealing with the application of regional policies.

## 1.I The Players of Regional Policy.

In order to follow the requirements in Chapter 21 of the *Aquis Communautaire* and to become able to achieve and manage the Community funds for the cohesion policy, Hungary has established a renewed institutional and administrative system. By the way, regional entities has just played a **limited role** in the decision making regarding regional policy because of the lack in managing abilities and because of the initial instability (due to the opposition of powers among counties). So, the control on the regional development programs remained to the Central Government, specifically to the Ministry for Environment and Regional Policy, created in 1990 and initially endowed with few powers because of the high number of tasks, the scarcity of resources and the sharing of responsibility with the Minister of Interiors (who planned the disbursements)<sup>12</sup>. Moreover, summing that to the lack of a strategically direction of the tasks, we can easily understand why that Ministry started to fully work just at the end of the '90s.

In 1996, the competencies for the Ministry about regional and spatial development were indicated by the Regional Development Act. After the 1998 elections, the new Ministry for Agricultural and Rural Development (MoARD) has been responsible for regional policy, under the supervision of the Independent Smallholder's Party<sup>13</sup> (*Független Kisgazdapárt*) that unofficially contributed to determines the policy provisions adopted. This new Ministry gathers the governmental competencies about regional policy and the previously detached Unity for the EU Integration, dealing with the management of EU co-financed programs (as PHARE). Other than MoARD, other Ministries take part in regional policy because this one has been traditionally sub ordered to part interests, as it also happens now. Even thou the strengths to enforce the ministerial cooperation, a **slow path of coordination** emerges in regional development activities and among these and other initiatives coming from single ministries, with a limited spatial impact. This element represents a strong obstacle to the programming and to the enforcing of the interventions on regional scales, due to the fact that there are several offices with related tasks.

## 2. THE EUROPEAN INSTRUMENTS FOR THE COHESION IN HUNGARY.

In the program of Agenda 2000 are established the interventions supporting the cohesion policy in the former candidate Countries for the programming period 2000-2006: we principally refer to the **cohesion fund** and to the **structural funds** which represent a disbursement, for Hungary and for the other CEEs, equal to the 4% of GDP<sup>14</sup> in the EU-25. With these instruments the EU pursues the objectives of regional policy: as in the Title XVII- Economic and Social Cohesion- of the Treaty establishing the European Community and in its art. 158, in order to **promote the harmonic development**, the Community works to design and actuate actions for the strengthening of the economic and social cohesion among its members. Particularly, the Community aims to diminish disparity in different regional development levels, the backwardness of the disadvantaged and peripheral ones and the islands, including rural areas. For this reason, more than 2/3 of the financial endowment for structural funds (more than 135 billion euro) was designated to the backward areas classified as Objective 1<sup>15</sup> because their per capita GDP (p.p.p.) is less than 75% of the European average<sup>16</sup>. In order to diminish regional disparities doubled after the 2004 enlargement<sup>17</sup> (the EU average income decreases of circa 12.5%, population living in backward regions increases from 20% till 25%) and **pursuing the convergence** inside the EU, according to the

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<sup>12</sup> Bacthler et al., 1999.

<sup>13</sup> A minor party in the right-wing coalition.

<sup>14</sup> Viesti-Prota, *Le Politiche Regionali dell'Unione Europea*. Il Mulino. Bologna. 2005.

<sup>15</sup> With the programming period 2007-2013, the Objectives remain three but they get a new denomination: Convergence, Regional Competitiveness and Employment, European Territorial Cooperation.

<sup>16</sup> European Union web site, section regarding regional policy management.

<sup>17</sup> EC Third Relation on Social and Economic Cohesion. Brussel, 17/05/2005.

criteria established in the Council Regulation No 1260/1999 regarding Structural Funds, Hungary is completely shifted in Objective 1 for the period 2004-2006<sup>18</sup>.

In fact, the Country presents some indicators placed in the *red zone*:

1. Low investments level;
2. unemployment rate higher than the average;
3. lack of services for enterprises and citizens;
4. poor basic infrastructures.

**Structural Funds** finance development programs endowed with an own balance and presented by the Government of the State interested in the eligibility for the financial assistance in a programming document covering several years. This plan must be implemented by the interested Government just after the EC approval. Hungary has presented in 2003 its National Development Plan for the Implementation of the EU Structural Funds<sup>19</sup> in which also the structural funds providing for a partial covering of the expenses are presented:

- European Regional Development Fund (ERDF).
- European Social Fund.
- European Agricultural Guidance and Guarantee Fund (EAGGF).
- Financial Instruments for Fisheries Guidance (FIFG).

During the drafting of that document, national and regional authorities are assisted by the EC which, in the 'Further Indicative Guidelines for the Candidate Countries'<sup>20</sup> (EC Communicate 2003), indicates the guidelines that should consider the **specificity** of every involved Country. Priorities are related to the problems each State is facing and to the commitments undertaken under the *Aquis Communautaire*<sup>21</sup>.

In the first programming period 2004-2006, Hungary could benefit from Structural funds and Cohesion fund disbursed on the basis of the **Hungarian National Development Plan** which identifies the priority objectives for development and in which the modalities of employment of the European funds are explained. In that document, the Hungarian Government presents 'the reduction of the existing disparity between the p.c. GDP of the Country and the European average' (external convergence) as the long term objective; then, it analyzes strengths and weaknesses of the Hungarian economical system with a SWOT analysis. The scope is the identification and the subsequent correction of the causes generating disparity at the national level. In the HNNDP, four objectives are considered as priority:

1. Increase in the competitiveness of the productive sector.
2. Rise of employment and human resources development.
3. Infrastructural improvement and environmental safeguard.
4. Strengthening of regional and local potentials.

These points should be realized by five **Operative Programs** which identify the specific actions and establish the economic private/public operators competing with own projects for the achievement of the Community funds. Every OP is under the responsibility of a **managing authority** which cooperates with the Plan Unit, assuring the coherence among actions started, key objective and strategies highlighted. MoARD is responsible for the OP Agriculture and Rural Development.

Other programs among Community Actions are also implemented with the financial assistance of the Structural Funds, namely INTERREG (III A, IIIB, IIIC) about trans-national cooperation and EQUAL, for the establishment of partnerships (against gender discrimination on the workplace).

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<sup>18</sup> EC Document, Financial Outlook 2007-2013.

<sup>19</sup> 'Hungarian National Development Plan for the Implementation of the EU Structural Funds – Single Programming Document 2004-2006'.

<sup>20</sup> Commission Communication of 12 March 2003 - Further indicative guidelines for the candidate countries.

<sup>21</sup> They are also in accordance with the guidelines of the EU Community Strategy 2007-2013.

Finally, the Cohesion Fund provides disbursements to Hungary for infrastructural projects regarding environment protection (potable water, waste..) and transports (motorway, airports..).

It's important to underline that the EU acts as a co-financer for the projects: the entitled Country has also to take part in the financing (with lower quotas).

**Tab. 2.I Community funds 2007-2013 for Hungary.**

	Convergence			Regional Competitiveness and Employment		European Territorial Cooperation	Total
	Cohesion Fund	Convergence	Phasing out	Phasing in	Competitiveness		
<b>EU-27 Financing</b>	69.578	199.322	13.955	11.409	43.556	8.723	<b>347.10</b>
<b>Indicative Hungarian Financings</b>	8.642	14.248		2.031		386	<b>25.307</b>

Data in millions euro, at current prices.

Source: own elaboration on Inforegio data 2006.

### **3. FIRST POSTIVE RESULTS AND BLACKLASHES IN THE ANSWER TO THE INCREASING INEQUALITY.**

With the beginning of the transition process and the explosion of socio-economical problems linked to that, Hungary, as the other CEEs<sup>22</sup>, posed the basis for the development of a regional-European like-policy to solve these new problems and to open the way for the European membership. Some internal differences already existed in the previous planned economy but they drastically increased during the reform period, before and (still) after the joining the EU. In fact, even thou the Community funds disposed under the cohesion policy for Hungary, sooner as a candidate Country and later as an effective member, the level of inequality<sup>23</sup> among the Hungarian regions has continuously augmented. The **explosion of internal divergence** accompanied the introduction of a market economy, while in the socialist period it was more limited because the rapid industrialization gave impulse to urbanization also in the less developed regions. As a consequence, between 1948 and 1989 the data showed an increase in economic convergence<sup>24</sup>.

In the transition years, instead, two factors appeared in the Hungarian regional policy as in the other CEEs: the clear **East-West demarcation**; the dominant **role of the Capital town** and its border areas for the development of the Country. It's possible to identify a *winner* and two *losers*, whereas the Capital and the main cities belong to he first group while rural areas and Eastern peripheries to the second one<sup>25</sup>. The increase in internal divergence in the rate of development showed above goes hand to hand with a pronounced (at least till 2005) **external convergence** (*catching up*) with the EU-27 average level of p.c. GPD. In fact, after a structural fall in GDP around 40%<sup>26</sup> between 1989 and 1995, a new and quite steady growth trend imposed so that, in 2001, Hungary could exceed the 1989 one. Few months after the European membership, Hungarian p.c. GDP was circa 60% lower than the EU-25 average, comparable to the poorest regions as Iperios (Greece) or Açores in Portugal. Even if the growth in GDP has decelerated

<sup>22</sup> Central and Eastern European Countries.

<sup>23</sup> European Commission, 2001a.

<sup>24</sup> By the way, we must always take care about the affordability of the data proposed.

<sup>25</sup> Iara and Traistaru, 2003.

<sup>26</sup> In comparison with the pre-transition level.

in 2006<sup>27</sup> (+3.5%) and in 2007<sup>28</sup> (+2.6%), in the current programming period the region in which Budapest is located (Közép-Magyarország) is classified as *phasing in*<sup>29</sup>; by the way, we must keep in mind that the joining of Romania and Bulgaria in 2007 has generated a *statistical effect* (due to a comparative numerical improvement, greater than the real one).

This slow but constant approach to the Community economic levels demonstrates, from one side, that the European disbursements contributed to start a growth process in Hungary but they weren't able to oppose and reverse the impressive increase in internal disparity, in contrast with the prescriptions and objectives established by the EU cohesion policy. The problems emerged in the application of its instruments in Hungary (as in the other CEEs) can also be read as a trade off between equity and efficiency<sup>30</sup>. In order to highlight the different aspects of this situation we can compare two examples among better off and worse off regions during the ongoing approaching to the EU parameters.

### 3.1 The *Winning* and the *Loosing* Areas.

Following this division, in the first grouping we find Budapest, able to lead the bordering area in the way of development. This event was predictable because already in the ex satellites Countries, as in the ex Soviet bloc, the Capital town had a leading economical and political role. An interesting news is represented by the Győr and Sopron counties, located at the North-West border: these areas got the second position (after Budapest) according to the economical performance, thanks to a revitalized economic growth along the Austrian border, to the fast transformation of the main cities (Sopron, Győr) and to the improvement of tourism facilities around the lake Balaton.

The reason of the success of these areas remains in the ability to develop the **services sector** and to reorganize production in the manufacturing sector, **reallocating its workers** and **attracting FDI**<sup>31</sup>: these counties are characterized by the growth of new enterprises in which coagulated a considerable amount of FDI (already in the middle of the '90, the half of all the foreign direct investment in Hungary reached Budapest) and contributed to determine a lower level of unemployment. This could happen because of the good endowment in infrastructures (the M1 motorway as ex.) which encouraged the delocalization of several international joint ventures<sup>32</sup>. While Budapest attracted mainly activities linked to the tertiary sector and finance, the Győr-Moson-Sopron and Vas counties had become specialized centres for industrial production.<sup>33</sup> Moreover, since the years preceding 2000, this advantage has continuously increased following up the positive uninterrupted growth trend: here more than 70% of employed works in the tertiary and 50% of people dealing with R&D in Hungary<sup>34</sup> finds place, thanks also to the numerous Universities located in the Capital.

Budapest is situated in the region (NUTS 2 classification) called Közép-Magyarország, the most similar to the EU-15 regarding the current characteristics and economic and demographic growth trend. In this Region, 17% of the Hungarian population lives (1.179.000 people), in constant decline comparing to the last years. To understand the relevance of this data we can consider that Debrecen, the second biggest city, has 205.000 inhabitants and just other seven cities go over 100.000<sup>35</sup>. The Capital town is also the main immigration centre, it has 174 of all the employed, with a relatively higher education level (especially for women).

Instead Győr, in the Nyugat-Dunántúl region, is in the middle between Wien and Budapest and it's linked to these cities through an excellent transport network. It can offer foreign investors (Audi and Philips as ex.) workers with good technical endowment and motivation: this is an important element, not easily

<sup>27</sup> EBDR transition report 2006.

<sup>28</sup> Prevision of the Economist Intelligence Unit, end of 2006.

<sup>29</sup> Phasing in regions are the ones (NUTS 2 level) previously covered by Objective 1 and presenting a GDP superior to the EU-15 average. They are eligible till 2013 for decreasing support.

<sup>30</sup> Lackenbauer J., 2004.

<sup>31</sup> Foreign Direct Investments.

<sup>32</sup> Horváth, 2002.

<sup>33</sup> Rechnitzer, 2000.

<sup>34</sup> Bachtler et al., 1999.

<sup>35</sup> The data refer to 2004. Encyclopaedia Britannica.

available in all the areas of the Country due to the problems of retraining noticed in some regions and for some kinds of jobs.

The productive evolution in both areas **reflects on the wages**: in Budapest the medium wage is 34% higher than the national average, specially in the services and in the financial sector; in the Győr-Moson-Sopron and Vas counties the average wage was just a bit lower than the precedent one already in 2001, with peaks in the secondary sector because of the productive characteristics<sup>36</sup>.

On the other side we find rural areas, regions once characterized by the presence of heavy industry and **Eastern peripheries** which present a worse socio-economical situation, due to the problems of industrial re-conversion and workers' retraining (in the three Eastern Counties 35% of unemployed and less qualified workers live). Észak-Magyarország, Észak-Alföld and Dél-Alföld continue the decline started with the restructuring of the past productive system that in these areas was equivalent to the destruction of the old unproductive power and chemical plants, to the split of cooperatives and the discharge of labour force which hasn't been able to adequate to the requirements of the new organizations. The main weaknesses, contributing to enhance the centre-periphery<sup>37</sup> dichotomy, can be briefly listed: problems of re-conversion of the production; the still remaining heavy industry from the past system; the prevalence of small towns and villages; the presence of traditional<sup>38</sup> and mono-farming dating back the socialist time. This spatial partition follows the historical pre-socialist one where the dividing line consisted in the Danube River: till the World War II, Western regions showed a development path similar to the Western European ones while in the Eastern areas agriculture was the leading factor inside the economical structure. These last ones suffered also for the worsening of the economical situation in Ukraine, Romania and ex-Yugoslavia with which they maintained (before 1989) important commercial exchanges and from which they were dependent for the import of some basic goods. As COMECON finished in 1991, the Northern and Southern Great Plain weren't able to find other markets for the exchange of their products and the membership in the EU hasn't recovered the import-export of the precedent era. Moreover, mainly **agricultural areas** aggrieved by problems of re-conversion from extensive mono-farming (that endangered also the quality of the land) to individual farming and dealing with restructuring of cooperatives suffer now from the concurrency of cheaper products coming from Bulgaria and Romania. At the end, these areas result to be less attractive for FDI because of **the lack of transport infrastructures and services** for enterprises. Then, along the Eastern and Southern borders (as in Bács-Kiskun county) illegal economic activities and trafficking have spread, discouraging investments.

In the Northern Eastern Counties the privatization process started too late (or it didn't started in the facts)<sup>39</sup> consisting of few big foreign investors and ex firms managers which bought out the firms without bringing around improvements to revitalize the production structures. The Hajdú Bihar county can be taken as an example: it has presented a constant average on the regional value added (circa 4%) while since 1995 Észak-Alföld, the region in which Hajdú Bihar is, has continuously increased the produced added value. The highest percentage on AV is detained by the primary sector which still in 2001 touched 9.1%, the highest level among the Hungarian counties<sup>40</sup>. These data reflect the importance of agriculture in this county (and region) and show how the legislative provisions adopted in that sector at the beginning of the '90 negatively affected and partly determined the current delay in development. I refer here to the Restitution Acts (1991), meant to give back the land to the ones who hold it before 1939 and before the first Socialist Government<sup>41</sup>, and to the Law on Cooperatives (1992). The following division of land in very small (and often not contiguous) plots didn't help to solve the problems inherited from the past system, mainly linked to the use of pesticides and pre-treated seeds.

These element negatively influenced occupation: since 1995, the employment rate hasn't increased in the secondary or in the tertiary sector, while in the primary one a slow but constant fall in employment has been registered. The average wage is around 20% lower than the national average with a **negative pick in the tertiary sector**. It's no surprise that the unemployment level in Hindu Bihar county is higher than the

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<sup>36</sup> Inforegio 2004.

<sup>37</sup> Frank, 2000.

<sup>38</sup> Bachtler et al., 1999.

<sup>39</sup> Rechnitzer, 2000.

<sup>40</sup> Even if the agricultural value declined: in 1995 it represented 12.5% on AV.

<sup>41</sup> The properties taken after the Law against Hebrews in 1939 and after the first Socialist Government got the power in Hungary.



national average and **linked to the problems of transition**; moreover, whereas at the beginning the phenomenon interested mainly workers with low skills, living in villages or next to the State borders, now more than 1/3 of unemployed people in the County are people with an intermediate educational level, 55% of which men (but we must underline that the female participation is generally low). Everywhere the demand for work exceeds the supply and there's **no matching** between abilities offered and required in all the sectors.

In order to underline the relevance of the increase of internal inequality in Hungary we can compare the evolution of p.c. GDP level in the Hungarian richest and poorest regions with the one related to Eastern and Western division in Germany, whereas Germany has been the Country showing the highest internal income disparity, since the Reunification, in Europe. Surprisingly, while the data about the variation between Hamburg and Esau is negative, the one related to the Hungarian case is strongly positive.

**Tab. 3.I.1 Income disparity between richest and poorest regions, in Hungary and Germany.**

Country	Richest region (2)	Poorest region (3)	Percentage (2)/(3) of GDP p.c. in 1995 (4)	Percentage (2)/(3) of GDP p.c. 2000 (5)	Percentage (2)/(3) of GDP p.c. 2003 (6)	Variation (6)/(4) (7)
Hungary	Közep- Magyarország	Észak- Alföld	2.02	2.40	2.45	+21%
Germany	Hamburg	Dessau	2.88	2.83	2.60	-9.7%

**Tab. 3.I.2 Regional GDP 1999-2003.**

p.c. GDP as %UE-25 average	1999	2000	2001	2002	2003
Közép-Magyarország	78.7	81.8	88.2	95.0	94.9
Észak-Alföld	33.4	33.6	37.1	37.5	39
Nyugat-Dunántúl	59.9	60.4	59.1	60.4	64.5

**Tab. 3.I.3 Regional employment level 1999-2003.**

Regional employment (15-64) as % on the total	1999	2000	2001	2002	2003
Közép-Magyarország	60.6	60.9	61.7	62.9	63.3
Észak-Alföld	49.5	49.3	51.6	50.4	50.0
Nyugat-Dunántúl	63.1	63.7	61.9	61.4	62.0

Source: own elaboration on Eurostat data.

### 3.II The Incidence of Agricultural Reforms on Rural Development.

As mentioned before, the agricultural reforms introduced in the early '90 had a remarkable role in determining the persisting disadvantage of mainly agricultural eastern counties. The long term purpose of the legislative provisions, as the governments succeeded in these transition years affirmed, should have been the introduction of an **efficient, private and market-oriented**, agricultural system. The supposed methods didn't differ so much from the ones established in the other CEEs, except for the degree of application (higher because of the role detained here by agriculture): introduction of private property and opening to the market forces. The new agricultural legislation should deal with these elements and also with the requirements (regarding productive methods, marketing and the quality levels of products) disposed by EU for the full integration in the Common Agricultural Policy. Whereas the original objective declared by the first right wing government was the 'unification of the principles of land property and land use'<sup>42</sup>, this had been in a larger extent disobeyed in favour of the **principle of restitution**. The Independent Smallholder's Party, defending its positions also with obstructionism actions in the Parliament<sup>43</sup>, could impose a legislative reform in favour of individual farmers resulting counterproductive in terms of production and quality increase. The negative impact of this provision has been competed by the Hungarian governments' scarce ability to implement policy programs, to oppose the historical agricultural lobbies and to earmark the funds got for clear objectives. The following left wing government has continued to increase income subsidies for farmers, without changing those blocking laws.

The Restitution Legislation (in four Acts) established a **partial, indirect** and quite flexible<sup>44</sup> process of restitution<sup>45</sup>, through a system of land auctions in which all the people expropriated could take part after having received the *vouchers* necessary to obtain the lost properties. In 1992, a National Office for restitutions<sup>46</sup> was created with the task of collecting the demands and to inform collective farms they had to provide for a corporate fund for the compensation<sup>47</sup>. We refer to the Hungarian agricultural land privatisation as a *naming* process because the normative attributed a value to the *assets* for which were considered eligible coop and ex coop members, their families and employees which presented a validate request<sup>48</sup>. Every local authority sets a Committee for super visioning the auctions and to assure the land was really worked<sup>49</sup>. Auctions didn't take place if the participants could agree in a price; moreover, preference was given to the attendants who used all the vouchers together and to people reclaiming land for a value superior to 100.000 florins.

In 1992, a new Law on Co-operatives was passed, consisting of two Acts: 'one specifying how co-operatives should be transformed, the other one specifying how *genuine* co-operatives should behave'<sup>50</sup>. The law aimed to extend at the maximum level the number of people who could reclaim land from collective farms, propelling to the dismantling of the coop. Moreover, at the end of the restructuring and reallocation process, coops have been covered by the legislation on bankruptcy, as for private firms.

The results of these measures can be briefly exposed:

1. the four Acts on Restitution created other 1.0-1.1 million of new land owners having an average of 1.7-1.8 hectares p.c., generating a high fragmentation level, negative in respect with the increase in productivity, quality levels of products and technical efficiency.

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<sup>42</sup> Szűcs, Széles, 2004.

<sup>43</sup> And favoured by the low opposition of the other Parties.

<sup>44</sup> To manage reclaims due to the fact that the restitution year has been anticipated to 1939.

<sup>45</sup> Which went together with agricultural privatisation in Hungary.

<sup>46</sup> Országos Karpotlasi és Karrendezési Hivatal-OKKH.

<sup>47</sup> Szűcs, Széles, 2004.

<sup>48</sup> Swain, N.: *The Legislative Framework for Agricultural Transition in Hungary*. Working paper n.25, Rural Transition Series. University of Liverpool. 1994.

<sup>49</sup> When the Committee discovered the land wasn't cultivated, a new temporary farmer had to be found.

<sup>50</sup> Swain, N., cfr. Supra.

2. The number of cooperatives decreased after the first uncertain years<sup>51</sup> and the transformed ones had to face with the increase of competitiveness due to the market economy, with the decrease in subsidies and with the dismantling in favour of individual farmers.

After fifteen years, now the half of productive lands is used by coop, generating 46% of the gross margin<sup>52</sup>. Among EU-27, Hungarian coop show the widest cultivated area but they have a very low endowment in capitals in comparison to the European ones.

On the other side, in 1998 just 1% of land was cultivated by small private farms, showing that, after an initial return to the land, small owners preferred to rent o sell it since the half of the '90s.

**Tab. 3.II.1 Land distribution according to the property (in thousand hectares).**

Name	1990	1993	1995	1999	2001
<b>Cooperatives</b>	<b>5147.1</b>	3931.3	2208	1494.5	<b>855</b>
Economical Organizations	8014.4	7037.3	4801.2	4114	3640.1
<b>Individual Farmers</b>	<b>1288.8</b>	2204.6	4034.7	4689	<b>4195.6</b>
<i>Partnership</i>	2867.3	3106	2593.2	2619.5	2785
Others	...	6.1	467.1	500.1	1467.7
<b>Total</b>	<b>9303.2</b>	<b>9303</b>	<b>9303</b>	<b>9303.1</b>	<b>9303</b>

Source: Szűcs, Széles, 2004.

#### **4. THE LIMITS OF THE COMMUNITY STRATEGY FOR REGIONAL POLICY.**

One year after the conclusion of the first programming period, we can affirm Hungary has reached important goals in socio-economical development. Concretely, several projects, specially the ones linked to INTERREG for trans-border cooperation and for the sustain of SMEs have realized. Also the management of the tenders and financings regarding rural development has improved so that individual farmers can face now fewer bureaucratic obstacles for applying Community aids. Moreover, as explained before, Hungary could move near the EU-27 average level of p.c. GDP, approaching the convergence objective. By the way, a lot of rubs appeared along the development path and the explosion of regional disparity could be assessed as a clear example. So, in the prevision of future EU enlargements<sup>53</sup>, it's important to understand whether some problems could be avoided carrying on a different policy: if some errors have been committed, could they be prevented in the future?

To answer this question I've examined EC documents published before the Hungarian membership in 2004: in the thousands of collected pages evaluating the path of development reached by the Country during the pre-accession years, lots of deficiencies in the application of the requirements for the 31 Chapters composing the *Aquis* emerge. As in 1999<sup>54</sup> the EC reported Hungary satisfied the *Copenhagen Criteria*, pointing out the only areas in delay regarded the discriminatory situation of Roma people and the fight against corruption, four years later<sup>55</sup> the same EC had a less optimistic vision. Considering the agricultural sector and the statistical adaptation, the outcomes achieved often don't conform to the general

<sup>51</sup> At the beginning of the reform process just 7-10% of the members decided to leave the coop.

<sup>52</sup> Hungarian Farm Structure Survey, 2003.

<sup>53</sup> For the realization of which it's desirable to learn from these errors, in order to prevent serious problems and to save community money.

<sup>54</sup> CE 1999 Regular Report of the Commission on Hungary's Progress toward Accession.

<sup>55</sup> CE Comprehensive Monitoring Report on Hungary's Preparation for Membership. 2003.

evaluation: in 1999, in fact, the EC noticed that, even though the introduction of a law about the agricultural census, the problem of statistical adjustment was postponed in the evaluation proposed by the Committee of experts, the same that in 2003 underlined that 'Hungary registered just limited progresses in arranging the progressive introduction of the Common Agricultural Policy'. In 2000 the EC recorder that 'the slow path in which mechanisms interesting the common market organizations and structures linked to the European Orientation and Agricultural Guarantee Fund (EOAGF) are adopted prevents the strengthening of the managing abilities' while in 2002, 'Hungary continues to progress slowly but the Country must embrace further efforts in order to establish an integrated control and management system for SAPARD. Moreover, delays are registered regarding the institution of a paying authority'. At the end, in the 2003 Report in which the EC exposes the general adherence level to the chapters of the *Aquis* reached before the membership, it underlines again the importance of a punctual and effective application of the binding laws regarding agriculture from the managing authority.

Regarding the evaluation of the fulfilment of the 21st Chapter<sup>56</sup> (regional policy), the EC highlighted that the Country

1. has introduced the territorial division following the NUTS classification;
2. has adjusted the legislative framework (the ability of assure a multi annual budget planning) but the secondary legislation and some basic amendments to the *Public Finance Act* were missing. Then, to allow the full exploitation of its eligibility for structural funds since 01/01/2004, the Government had to fulfil the commitments regarding state aids and public supports;
3. has introduced the main institutions for the preparation and implementation of structural funds and cohesion fund but the designation of intermediate organs and implementing structures has to be completed (mainly for the control, authorization and execution of the payments to the final beneficiaries).
4. Programming documents- specially the Development Plan and the OP-have been presented even if the final evaluation wasn't finished. Consequently, Hungary still had to present OP and DP two months after the membership whereas delays in the monitoring system were also found.

After Hungary became a member of the EU in 2004, the EC, in the '16th Annual Report on the implementation of the Structural Funds'<sup>57</sup> analyzes the further challenges Hungary has to face: first of all improving the quality of national projects; **guarantying an proper and equilibrate geographical covering**; solving administrative lacks in the area of Budapest as in the more disadvantaged counties (mainly ameliorating professional training). It was also underlined that:

- Two months before the arrival of the Community financings for the period 2004-2006, institutional structures for the implementation of structural and cohesion funds haven't been designed yet.
- More attention was required to achieve an efficient inter-ministerial coordination and for the functioning of the Paying Authority.
- Internal intermediate committees without clear roles were established<sup>58</sup>.

## CONCLUSION

2004 and 2007 have been characterized by a fundamental event for the future of the EU: the enlargement to ten Eastern European Countries. This step has led to the modification of the European cohesion policy, mainly regarding the programs (43 more, specially for underdeveloped regions) and the Community instruments, whereas the financial allocations for the programming years 2004-2006 reached 24 billion

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<sup>56</sup> In this Chapter are outlined the rules for the designation, the approval and the implementation of structural funds and cohesion fund. Programs are negotiated with and approved by the EC but **their implementation is a task of the Government.**

<sup>57</sup> 16<sup>th</sup> Annual Report on the implementation of the Structural Funds. 2004.

<sup>58</sup> Charter 21, *Comprehensive Monitoring Report on Hungary's Preparation for Membership*. 2003.

euros (at current prices)<sup>59</sup>. The increase in financial resources hasn't always comported the development of the benefiting Countries and Hungary can be taken as a good example of that. Despite the conspicuous disbursement received, the new member State hasn't been able to start an equilibrated process of development among its regions: as in other CEEs, the Country shows a process of external convergence with the average UE-27 income level but, at the same time, it experiences an explosion in internal divergence. North-western regions and the Capital town could benefit of the impulse given by the Community aids in a greater extent than the Eastern peripheries. This bi-frontal result can be considered as the consequence of the lack in managing and planning abilities of the Hungarian governments but it can be also derived by the scarce supervision of the European institutions (*in primis* the EC), both in the Hungarian process of approaching the EU and in the post-membership.

Whereas the deficiencies ascribed to the Hungarian governments could be easily predicted, the European institutions that should address and guide the Country before the joining have committed numerous 'oversights' during their evaluations. If we can discuss about the accuracy with which the Hungarian membership has been disposed, looking at the institutional and organizational lacks exposed in the previous pages, there is no doubt about the underestimation of the increasing internal inequality and about the acceptance of the regional development programs presented by the new member State. In the end, the EC approval of the legislative agricultural reforms regarding the restitution of the land and the restructuring of Cooperatives hasn't encouraged productive and quality increases in agriculture.

The picture emerged from this analysis shows an uncertain future not only for the results of the reforms enacted in Hungary but also for the evolution of the EU, facing the consequences of the new memberships and probable next enlargements to the Balkans and to Turkey (with the following required adjustments of the community policy). If the EU wants to continue its 'growth' successfully, promoting the principles of the cohesion policy among its members without facing continuously with the ex-post 'unexpected' problems, it should rethink the policy prescriptions for the candidate Countries. This would prevent the appear of contrasting results from the utilization of the Community funds: weak signals of economical convergence among the EU States together with the worsening of the divergence among its regions.

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