

THE EFFECT OF THE SUBSIDIZATION SYSTEM ON AGRICULTURE

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ABSTRACT

The effectiveness of the agrarian subsidies will unambiguously show a worsening tendency if the amount of the subsidy does not reach a specific volume regarding the different types of enterprises. However, concerning Hungary, it is characteristic that subsidies provided for both private farms and joint agricultural enterprises tend to be exceptionally low. Naturally, this is related to the predominantly tiny, fragmented farms that have come into existence, and where there is no potential for mass production and producing the quality expected by the market, furthermore the necessary implement utilization cannot be achieved. The existence of these circumstances can make efficiency unstable. All these are certainly related to the extent the presently functioning agriculture is able to participate in rural development in consequence of the penurious resources. It would be desirable to alter the fragmented property structure in the form of voluntary partnerships, which would create larger farm sizes, therefore fostering future profitability, and by these means producing their own resources needed for development.

Keywords: subsidy, differentiated distribution, farm sizes, sustainability, competitiveness

INTRODUCTION

Analysing and adjudging the necessity, volume, effect, and effectiveness of the subsidization system are far beyond the scope of the present study. Our aim is to draw attention, by bringing up some influential factors, to the existence of interrelations, the circumstances that must be taken into consideration regarding their effect, and indirectly the necessity of actions that should be taken.

THE CHARACTERISTICS OF THE HUNGARIAN SUBSIDIZATION SYSTEM

It is necessary to make it clear at the beginning that to interpret the term of agriculture it is practical to employ the ancient (classical) concept, which contains the processes of food production as well as the activity that alters the relationship between humans, the arable land, flora and fauna - all in all environment building. Emphasizing it is also necessary since rural development is an important element of the objectives and the subsidization system regarding the Common Agricultural Policy. Significant renewals have characterised The Common Agricultural Policy since 2009. The emphasis has been placed on the direct income subsidization of the

growers, and it has become an integral part of rural development and the agricultural policy. Making direct subsidization independent from production is a central element (SPS system) (Cseke *et al.*, 2009). The objectives of this subsidization system are market regulating role strengthening, more balanced subsidization of the growers as well as widening the potentials for rural development.

More than 56% of the agrarian and rural developmental subsidies allocated were paid as market subsidization, and approximately 30% of them served rural developmental objectives. More than 96% of direct subsidies were allocated to individual growers (Dorgai *et al.*, 2008). It is also a fact that from among the subsidized individual farms nearly half of the applicants were given small amounts of subsidy (Tóth, 2009). It is remarkably disadvantageous that the majority of individual farmers belong to the older than 50 age group. (Examining the different counties, farmers in Heves, Nógrád and Zala are the oldest.) Within agriculture the biggest part of the arable farming sector received subsidies.

JUSTIFICATION OF THE AGRARIAN SUBSIDIZATION

Even these few figures raise the question why subsidies are needed, since it induces a peculiar competition for obtaining the subsidies, which cannot be regarded beneficial, as they significantly determine the growers' position on the market. On the other hand, it can be articulated in economic terms that under the given price conditions the growers (especially those farming worse quality lands) can achieve socially justified, fair earnings only by obtaining incomes increased by subsidies. Specialists emphasize in their studies the non-negligible circumstances that agriculture carries out tasks beneficial for the society (fragmented labour force, the employment of unskilled social strata, care of land, keeping rural communities in existence, etc.), and for which it can justly expect financial compensation from the society.

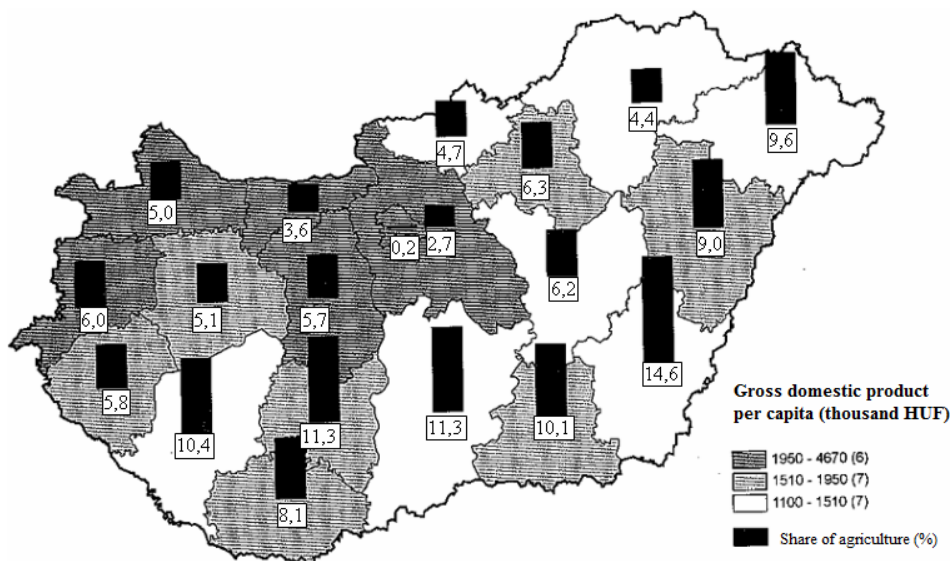
Furthermore, it cannot be neglected that agriculture is an activity, which lives off the land and the result of this activity also alters its environment. Sustainability has also become highly appreciated and forms an integral part of the subsidization system (Nagy, 2008).

Consequently, the expectation of the growers can be justified regarding the compensation given to them from public finances for the extra expenses that follow from sustainability as well as from the conditions of farming that have been made more rigorous.

It is also important to underline that the significance of agriculture varies in the different counties and regions. It is well demonstrated by the gross domestic product per capita and the share of the agriculture from the gross value added (Figure 1).

Figure 1

Gross Domestic Product Per Capita and the Share of the Agriculture from the Gross Value Added, 2005



Note: Agricultural gross value added (GVA) = the joint performance of agriculture, game management, forestry and fishing.

Source: *Agricultural Studies* (2008) (In: Hung.) 6. 40. p., *National Accounts of Hungary* (2004-2005); *Hungarian Central Statistical Office* (2007)

DIFFERENTIATION OF SUBSIDIZATIONS WITHIN THE COUNTRY

We decided to describe the situation by counties, because it leads or can lead us to studying the regional differentiations, highlighting the necessity of adjudging the circumstances evolved in micro-regions.

The Hungarian Central Statistical Office has evaluated the economic and societal characteristics of micro-regions several times, including 2004 as earlier years, regarding different indices (e.g. the value of capital invested per inhabitant, the course of changing the amount of gross annual income per inhabitant, the number of operating economic organisations per a thousand inhabitants, the number of telephone lines and cars per a thousand inhabitants, etc.). The classification was made by the comparison with the country average. A researcher-made delimitation has been created in accordance with basic indices, dynamic indices and developmental level, then on this basis five region types were identified as follows: dynamically developing, developing, catching up, stagnating, and lagging behind regions.

The criteria that evaluate regions, without doubt, determined the most important fields, which contain several connections; however, the role of some of the criteria has changed considerably since then (e.g. the figure of telephone lines per a thousand inhabitants is unable to describe alone how wide-spread the infocommunication is.) The number of indices (9) classifying regions does not require an increase; nevertheless, some change would be reasonable. For example the classification does not deal with agriculture directly, although the set of indices also communicate the product of this field of the national economy indirectly. (The same can be mentioned about the traffic conditions and the development of road networks, for example.)

It is also important to emphasize that about one fifth of the population in Hungary, approximately two million people, are connected with agricultural production. In the lagging behind regions this figure can be as high as 40% (*Dorgai et al.*, 2008). In these regions working in agriculture is almost the only means to avoid a severely underprivileged status and the utmost poverty. The activity of enterprises is another factor that should be examined. The figure most often used for its evaluation is the number of enterprises per a thousand of inhabitants. Yet, this index is inappropriate for evaluating the division of businesses by the sectors of the national economy as well as by their sizes.

It is ascertainable as a fact that the proportion of agricultural enterprises compared to all businesses is within the range of only 4-6% depending on whether companies operating in Budapest are also taken into consideration or not. The presence of this enterprise group in the micro-region must also be highlighted. It is not surprising that the highest percentage of agricultural enterprises (about 15%) can be found in the 'last' member of the regional classes. In the stagnating and lagging behind regions agrarian employment (13%) is four times higher than the domestic average, which is approximately 3% (*KSH*, 2008). There is a relatively strong correlation between a lower level of regional economic development and the determining role of agricultural activity. Concomitant phenomena in these regions include the unfavourable age composition of the population, the low level of education, and the extremely moderate income level.

The biggest problem of the numerous stagnating and lagging behind micro-regions is the lack of an appropriate economic basis. Without introducing measures fostering development their ability to retain the population will deteriorate. Unemployment is increasing, the social tension is growing, and an accelerated depopulation of villages can be predicted.

Those members of the labour force who drop out of agriculture will have a much slighter chance to get other employment in the stagnating or lagging behind micro-regions, compared to those living in regions that do not fall into these categories.

EFFICIENCY CONNECTION BETWEEN SUBSIDIES AND FARM SIZES

The efficiency of subsidization is particularly thought-provoking taking the fact into consideration that an average farm was given 976 thousand HUF subsidies in

Hungary in 2006. Whilst the average partnerships obtained 14 590 thousand HUF, individual farms received 531 thousand HUF. From the individual farmers about 114 thousand applicants (58.1% of all the individual growers) were given a small amount of subsidies (less than 210 thousand HUF) (Dorgai *et al.*, 2008).

It is important to consider that there has been a gradual societal restructuring in rural areas within the European region. The effectiveness of high-performance farm machinery as well as mass-produced food supply further strengthened the positions of large scale enterprises, and has significantly altered the structure of land ownership (Glatz, 2008). Changes of properties, land concentration, new ownership and land leasing forms have come into existence, and new cooperatives have been established.

With the constraints within market economy the ownership of land, the sizes of farms, along with agricultural cooperatives have been gradually altered in Western Europe. The modernisation of the former large-scale farms did not take place after the political changeover in Hungary.

The country is characterised by an agricultural business structure that is unable to succeed regarding the European competition. The appropriate producing volume, the production profile and the flexible adaptability to the market is conceivable only if farm sizes reach a certain extent. The subsidization-utilization will be or can be more efficient only after the realization of this aim and the objectives of rural policy can also be realised by then.

CONCLUSIONS

The agrarian subsidization must be regarded as a prominent element of the subsidization system. Beyond the usual business economic issues, the special environment forming characteristic of agriculture, as well as sustainability, must be taken into consideration during decision making, regarding the forms and volumes of subsidization. We regard the establishment of harmonization between the EU subsidization system and its domestic counterpart an important issue.

The unfavourable structure of land ownership is a major hindrance to rural development at present. The small, fragmented structure of agricultural land makes mass production, even quality, and efficient utilization of the means of production impossible, furthermore it also decreases the role of subsidization and its effect on successful farming. This finding is true even if there is also a favourable condition, since most part of our country is suitable for food production.

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