

## HUNGARY'S RURAL INDUSTRY

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Even in the period preceding World War Two, the Hungarian industry was characterized by high concentration, mainly as a result of the fact that capitalist industrialization started in Hungary later than in the more developed western European countries. In spite of this, however, handicraft also played an important role in industrial production. Besides the large industrial factories there were a lot of medium-sized and small plants as well. By way of illustration, in 1938 two thirds of the entire industrial output were produced in factories employing less than 500 workers.

After 1945, industrial concentration continued to increase. In the course of the nationalizations a great number of small plants were wound up, amalgamated or joined with larger enterprises. Industrial development affected first of all the heavy industry, considering that due to its technological peculiarities, it requires the creation of primarily large industrial factories. At the same time traditional rural handicraft was gradually degressing. A sudden suppression of some rural industrial-like services (privately owned small repairing and servicing shops employing only one or two) by means of imposing disadvantageous taxes upon them also contributed to shrivelling rural industrial activities.

1962—64 were the years of fundamental changes in organisation. During this period the number of the state-owned industrial enterprises diminished by one third, the average labour force, however, almost doubled.

Although in the early sixties similar reorganization, amalgamations and fusions have also been carried out in all other European socialist countries, such a high industrial concentration has nowhere been created.

It is for instance characteristic that while in Hungary over one third of the workers are engaged in industrial enterprises employing more than 5000 workers, the same figure in the Soviet Union accounts for only 22 per cent, and in the majority of the CMEA countries — for only 16 per cent.

In accordance with this, on the international level the Hungarian share of those working at industrial enterprises employing less than 100 workers belongs to one of the lowest. This only applies to the figures of the state-owned and cooperation industries, considering that present paper doesn't deal with private-owned small-scale industries, nor does it with industrial activities of farming plants.

Technical progress generally requires industrial concentration, despite the fact that in many countries the ration of small plants doesn't indicate any major decrease. (For example in the USA the ration of small plants employing less than

Table 1. *Industrial settlement structure by number of persons employed\**

Country	Ratio of industrial settlements employing persons				
	below 50	51—100	101—500	501—1000	1000 and more
Hungary	5.1	5.3	21.7	16.9	51.0
GFR	9.6	8.7	28.7	12.3	39.8
USA	14.1	10.2	31.3	12.8	31.6
France	23.4	12.8	32.3	11.0	20.6
Japan	31.2	13.5	26.1	9.4	19.8
Sweden	22.0	12.8	33.7	13.0	18.5

\* *Source:* Az ipar nemzetközi összehasonlításban. (Industry in international comparison.) Hungarian Central Statistical Office. Statisztikai Időszaki Közlemények. (Statistical Periodical Proceedings.)

100 persons didn't decrease during the past fifty years. On the contrary, the number of employees has almost doubled.)

Concentration mainly characterizes heavy industry throughout the world. It is, however, very interesting that in Hungary, contrary to the general tendencies, considerable concentration has taken place in light and food industries. The reason is, that heavy industry was highly concentrated even in the period preceding World War Two.

Table 2. *Extent of concentration in some industrial branches; rate of industrial settlements employing more than 1000 persons*

Country	Engineering industry	Chemical industry	Textile industry	Food processing industry
Hungary	64.5	55.7	71.0	31.6
GFR	69.2	47.4	18.2	11.9
France	30.9	24.1	10.3	2.2
Japan	28.2	35.4	9.9	3.8
United Kingdom	50.1	45.2	10.7	30.9

\*\* *Source:* as above.

But the industrial concentration indexes are a little bit misleading as the major part of our large factories are not actually large.

The index numbers often indicate only formal amalgamation of several smaller industrial establishments, while in part of these combined plants technology of production, equipment, organization and management have remained on the former low level, so it does not allow the utilization of large scale production advantages.

But considering this phenomenon, too, one has to say, that the Hungarian industry is over concentrated. The low ratio of small and medium-size plants reduces

the efficiency of large-scale production and contributes to the formation of permanent shortage in number and variety of goods in population supply.

The territorial centralization industry has further increased the high organizational and production concentration of industry. The heredity of capitalist Hungary, that is high industrial development in Central and Northern Transdanubian, in the capital and in the Northern Hungarian Central Mountains country, but simultaneously economic backwardness in the Great Hungarian Plain and Southern Transdanubian, could not be essentially changed by developing socialist industry in Hungary. The reason was primarily that the one-sided development of heavy industry in the postwar period continued to depend on the coal bases situated in the above mentioned industrialized areas.

The first major efforts aiming at the elimination of the disadvantages deriving from the lack of small and medium-sized plants, regional differences in industrial development, and one-sided industrial developing were taken only in the sixties.

The share of light industrial investments had been raised, even full-scale reconstructions of several branches, for instance that of the textile industry have begun. Industrialization of Great Plain had started. Its main objective was to ensure industrial jobs on the spot for those coming from agriculture. Therefore branches, requiring manpower, rather than equipment — namely engineering, light and food industry — characterizes industrial location in the Great Plain.

A selective industrial development in the capital also contributed to changing Hungary's regional industrial structure, as a great number of plants had been removed from the capital to rural areas. Intensive development in rural areas and moderate industrial development in the capital resulted that the share of the industrial production of Budapest reduced from 39 per cent to 32 per cent between 1960—1970. The number of industrial workers decreased by about 100 000 between 1963—1975.

Structural changes in energetics took place in the late sixties, early, seventies and it also had profound regional effects. In the beginning of 60-s Hungary met 75% of her energy requirement of coal. In the late sixties and mostly in 1971—1972, a number of coal uneconomical mines have been closed, especially in Nógrád and Borsod counties, in order to make coal mining more economical. The employment of nearly 20 000 miners could partially be solved by locating new industrial plants.

The economic reform of 1968 also had a favourable effect on the industrial development of areas still having free labour force. The economic reform ensured greater independence for the enterprises. For instance, they themselves were allowed to dispose on a considerable part of their development fund created from their own profits. In many cases these enterprises spent a part of their production investments on establishing new industrial plants in the country-side in smaller settlements, as locally they could hardly find any surplus labour. The number of small plants settled in rural areas suddenly increased in 1968.

The period of the fifth five-year plan (1976—1980) indicates changes in the development of rural industry. Industrial and local plans need more concentrated investments. The number of new industrial plants will decrease and this might result the stagnation or at least the decrease of rural industry. The concentration of industrial development has been required by the labour shortage. Growing number of small plants in rural areas; also contributed to absorbing mobile labour force. But it also lead to squandering investments goods. A number of small industrial plants

has been established in old buildings having been created for other purposes, by means of minimal investments, making use of out-of-date equipments, worn out partly or entirely in the large factories. In addition, there were only unskilled, unexperienced labour forces available.

As a result in some labour productivity has not reached the required standards in some small rural plants.

Of course, all this does not characterize rural industry as a whole. The overwhelming majority of rural industrial establishments has succeeded in achieving results close to the national average, even if their circumstances were disadvantageous. There is no doubt, that the location of these new industrial plants affected favourably the labour and living conditions of the local population.

### Present situation of rural industry

More than 20% of the whole industrial workers are employed in rural industrial plants. This rate and its importance will even be greater if we calculate the auxiliary industrial activities of agrarian cooperatives.

One has to mention as well, that another 20—25% of industrial workers commuting daily (weekly or monthly) to the industrial plants of towns. In the early seventies in about 400 of a total of 3000 Hungarian villages, more than 50 per cent of all active earners were employed in the industry.

Branch-structure of rural industry is similar to that of the whole industry's. In the combined index numbers characterizing the division of branches, there is only a minimal difference between the proportions of heavy, light and food industries in the villages and on the national level, respectively.

Table 3. *Structure of industrial branches on the basis of the share of employees in rural industries and on the national level (in per cent)*

	In rural industries	On the national level
Mining industry	14	8
Electric power industry	1	2
Metallurgy	2	6
Engineering industry	31	31
Building material ind.	8	5
Chemical industry	4	6
Heavy industry	60	58
Light industry	25	27
Food industry	9	11

In the branch structure of different industrial groups there is already some difference between rural and national patterns. Typical of rural industry is the high share of mining and building material industries. The proportion of food industry within rural industries is, surprisingly low. In this case the figures are slightly distorting,

as auxiliary industrial activities are mostly of a food-industrial character, but we did not take them into consideration.

After all of dominating branches rural industries are those, processing raw materials available on the site.

Rural industry's fixed assets and the share of their machines and equipments, also amount to about one fifth of all the industrial fixed assets and machineries of the country as a whole.

But this only applies to gross valuation, because net values (reduced by the amortizations) are lagging behind the national level. Rural machinery is older than the country average.

Approximately 45 per cent of those, employed in rural industry are women. It is not surprising that the share of women earners in rural industry is slightly superior to the national average (43 per cent), being at the same time the overwhelming majority of the commuters — men.

No data are available concerning production value of rural industry. Production data have been registered only in regard to the industrial enterprises as a whole, without detailing for industrial settlements. Most part rural industry doesn't consist of independent plants, so the rural share of production value would by no means reflect the reality.

Productivity represents the crucial point of rural industrial production, of removing plants to rural areas. We have no comprehensive knowledge of rural industry's productivity. But representative observations indicate that the productivity of rural industry is below the national level. There are various reasons for this unfavourable phenomenon. Out of date real estates and machineries, unskilled labour force have already been mentioned above.

Fluctuation of labour in rural plants is on a smaller scale than in urban ones. Fewer opportunities for choice between places of work compel the workers to greater compliance.

But from the point of view of the factory the effect of this positive phenomenon is scarcely to be felt because of the introduction of the new child-care allowance system. In new plants, employing mainly women, the share of those receiving the three-year child-care allowance (Which in case of three children's birth can be extended until 9 years) not seldom accounts for 20—40 per cent of the total number of the employees. Their proportion is still steadily growing.

At urban plants the number of women being on child-care allowance is lower, and many of them return before their three-year time has expired. The division of the workers by age and sex is more balanced at urban plants, and there are also more opportunities for accomodating the children in enfant's nursery.

The central plants themselves often contribute to the formation of lower productivity levels by having their rural plants make all the underpaid working processes which require less quality work.

Lower productivity, unskilled labour force, shorter period spent in industrial work must turn up, in a lower wage level of rural industrial workers. In 1975 the rate of this lag behind national and urban industrial levels, amounted to 8—10 per cent.

### Regional differences of rural industry

Rate of the rural industrial workers is extremely different in each county. In scarceley achieves 8 per cent in Győr-Sopron and Csongrád counties, as against more than 60—70 per cent in Pest or Tolna counties. Obviously, this depends not only on the spread of rural industry, but also on the economic structure of the county, the sizes of the urban industry and the settlement network.

The rate of labour force employed in rural industry shows, however, smaller fluctuations among the counties. Their rate ranges from 34 to 58 per cent.

In the rural industry there is a close relationship between the employees division by sex and the level of wages. In counties with high wage level (Veszprém, Fejér, Heves, Borsod-Abaúj-Zemplén, Nógrád) the rate of employed women is the lowest. The reason is either the fact that in view of the higher wages of the men there is no need for women's salaries (in the above-mentioned counties mining and heavy industries are prevailing), or wage level is higher in consequence of the smaller retarding effect of lower woman wages.

In extreme cases the wage level differences among the counties make up more than 30 per cent.

Particular natural and economic endowments of these regions also manifest themselves in the regional differences of the branch structure.

In the region of Transdanubia and Northern Central Mountains as well as in Baranya county — where the Hungarian coal mining is being carried on —, or in South-West Transdanubian and Csongrád county — that is in the areas of the Hungarian oil production —, 20—40 per cent of the total industrial earners are engaged in mining. Construction industry, also linked up with its deposits, especially in the Transdanubian counties. In the main agricultural areas (the Great Hungarian Plain, the Plain in North-West Hungary) the rate of the food processing industry is above the national average.

Engineering industry represents considerable proportion in all counties. First of all, highly-fabricated engineering branches having only loose connection with the sites have been located in the backward areas. In beforehand expressively agricultural areas the rate of persons employed in engineering industry has increased up to 25—45 per cent. (In Békés county 29 per cent, in Hajdú-Bihar county 44 per cent, in Somogy county 38 per cent, in Szabolcs-Szatmár county 24 per cent.)

Development of light industry has been relegated to the background in the regions where mining and heavy industry are dominating. This does not mean only proportional industry are dominating. This does not mean only proportional differences, but also absolute lags behind the other counties. (In these counties the ratio of persons employed in light industry accunts only to 7—8 per cent.) One-sided industrial structure offers less opportunities for the employment of women.

### Means of rural industrial location

Up to now branch or regional development policies did not prefer directly rural industrial development. The introduction of auxiliary industrial activities of farming cooperatives constitutes a marginal case. But its immediate goal was to

strengthened farming cooperatives economically. The sphere of the auxiliary activities had to be limited later in order to concentrate the efforts on agricultural production. As a result of the modified taxation system introduced in the early seventies, farming cooperatives have become interested chiefly in food processing.

With the introduction of the economic reform, the decision-making functions of the enterprises have been broadened in the field of investments, too. Now the enterprise itself decides how to use its profits and a part of the amortization. About 60 per cent of the national investments are financed by enterprise investment funds. It is the framework that virtually serves the purposes of creating and developing rural industrial establishments.

Regional regulators and other official prescriptions are important means of realizing regional objectives.

A Central Fund for Regional Development was created in 1971 for the development of backward regions. This fund is expected to solve three major regional problems. In the course of the capital's selective industrial development a number of industrial plants are being removed to rural areas. The costs of creating new rural industrial plants are being covered partly by the capital's Fund for Industrial Removing. Between 1971 and 1975 this Fund of about 800 million forints accounted for some 13—15 per cent of all investments in rural areas.

The fund creator for developing backward areas accounts for nearly 25 per cent of the Central Fund for Regional Development. Support is being given for industrial development of the Great Hungarian Plain and south-west Transdanubia from this Fund.

The fund for reducing coal mining served the transformation of the economic structure of the areas concerned.

Between 1971—1975 supports were granted to nearly 200 investments from the Central Fund for Regional Development. Close on 30 per cent of the full amount of these 200 investments were covered by this supports. About 60—70 thousand new working possibilities were created by these investments. A great number of them has broadened urban labour opportunities but about 50 of the 200 new plants were located in small towns and villages.

The Regional Development Fund amounts to not more than 1 per cent of all industrial investments, but it oriented 4—5 per cent of all the industrial investments to the desirable areas. In the areas assigned for industrial development, even where the investments are supported from the Central Fund for Regional Development, advantageous credits can be used. For instance, the enterprises removed from Budapest to rural areas covered 24 per cent of the expenses from bank credits. Above-mentioned advantages mean that banks are setting lower requirements to the enterprises.

Local councils, also can ensure considerable support to the location of industrial plants. Industrial enterprises are obliged to pay 6 per cent of their profits, and farming cooperatives — 1 per cent of their gross income to the territorially competent county council. These councils are entitled to promote the faster development of the enterprise by temporarily exemption from their financial commitments. County councils prefer granting preferential credits from their own industrial development fund to the enterprises.

Official regulations for implementing regional objectives are mainly of an

administrative, and only to a lesser extent economic. It was in 1973 that a National Plant Location Authority\*\*\* was set up in order to help the enterprises in the location of new industrial plants. Considering that the Plant Location Authority has no own financial resource and that the enterprises are not obliged to accept its recommendations, for the time being the Authority is hardly able to fulfil its task of orientating the location of new industrial plants.

\*\*\* It provides settlement alternatives for the location of the enterprises, according to the objectives of the regional development.