

Hungarian Land as Political Instrument

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- Studie -

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Hungarian Land as Political Instrument

Towards the end of 2015, the dominant issue for Hungarian voters was clearly the omnipresent refugee question. There was only a single issue that became important enough to challenge the refugee question's monopoly for the attention of the voting public: the Orbán government's announcement to privatise several hundred thousand hectares of publicly-owned lands in the span of just a few weeks. The governing party, Fidesz, claimed to be helping farmers, while the left-wing opposition spoke of another round of corruption and the far-right accused the government of treason. For many Hungarians, the issue of land ownership is of pre-eminent importance, but to fully understand the phenomenon, we must go back a 1000 years in Hungarian history.

A short history of land in Hungary

Already in the medieval ages land ownership in Hungary differed from the customary arrangements in western Europe. Numerous elements of the customs that had prevailed at the time when the Hungarian state was established around ca. 1000 AD continue to shape public perceptions of this issue. Ever since the reign of the first Hungarian king, Saint Stephen, the right to bestow land on those deemed loyal was always a royal privilege. It was illegal for anyone but the king to sell or divide land. Due to the royal monopoly on donating land (as opposed to the western European model of the feudal chain of ownership), centralised power in Hungary was very strong, as was the direct bond and subordination to the king at every level of society. Though the nobility was allowed to bequeath their land within the family, they were not allowed to sell or subdivide it. Indeed, in the absence of an heir, the lands were returned to the crown. The prohibition on selling land in Hungary persisted for almost nine centuries, until 1848.

Hence as compared to western Europe, in Hungary it took centuries longer for land to genuinely become available for sale to private owners. Since land had no monetary value, it was impossible to mortgage it. This was why capitalism, in fact entrepreneurial culture in general, as well as the bourgeoisie, emerged with considerable delay in Hungary and were less pronounced than in the West. Typical middle class professions, such as trade, entrepreneurship and setting up factories became popular precisely among those strata that had to look for alternative sources of subsistence due to their lacking access to land. These strata consisted predominantly of Jews, Germans and Slavs in Hungary – in other words the groups that found it difficult to attain titles of nobility and land. In the age of industrialisation, however, it was precisely these arrangements that set the latter groups on a path towards wealth, while many

land-owning aristocrats found themselves sitting atop lands that could not be sold while they became increasingly worthless. The hostility of the land-owning aristocracy – which was to become the backbone of the Hungarian conservatism that entered the scene at a later point in time – to capitalism and capital (often combined with anti-Semitism) emerged and solidified during this period as a result of their resentment of the enrichment of the entrepreneurial strata. And this is also one of the reasons why the left, which stands opposed to the traditional right in Hungary, is considerably more open to capitalism and foreign capital than its western counterparts.

The aftermath of World War I saw a smaller-scale land redistribution, but during the post World War II period a massive redistribution of lands took place. But communist nationalisation and collectivisation after 1951 made it impossible for masses of Hungarians to experience having land of their own. Thus during the 40-year period of communism the notion of privately held land and privately cultivated lands were essentially unknown once again.

Following regime transition, the former land owners received the value of their previous holdings in the form of "compensation vouchers" that they could use to buy land. Thus for the first time in nearly thousand years the masses had the possibility to acquire land that they were also allowed to sell. But the privatisation process led to a landholding structure in which many people held small parcels of land. Many tiny land estates ended up with people who had little use for them, because they either lacked the knowledge or the necessary capital to cultivate it. This in turn led to a quick consolidation in the sizes of landholdings, and as well-capitalised investors began buying up land the number of family farms declined rapidly. However, there are still roughly 2.8 million land owners in Hungary today, and they own an average of 8.1 hectares of land, which is very small in European comparison. A significant majority of the 2.8 million however, namely 1.8 million, do not cultivate their land but lease it to others for this purpose. The greatest contiguous landholdings tend to be managed by those agricultural stock corporations that emerged from the privatisation of state-owned collective farms; for the most part, these tend to lease their lands from the state rather than private individuals. Usually, the lease agreements are concluded well below market prices for periods that often range from 30 to 50 years.

For Hungarian land owners, one of the cardinal issues of the country's EU accession was whether the citizens of other EU countries would be able to buy land here. Since Hungarian land is considerably cheaper than land in western Europe, the emotinal fear was that well-heeled EU farmers would buy vast tracts of Hungarian lands, and thus 'the country will be sold for foreigners'. Thus the EU and Hungary agreed on a 10-year moratorium on the sale of Hungary lands, which ran out in 2014. As a result, Hungarian lands were protected from foreign buyers until last year. As the moratorium ran out, however, the issue of land ownership and the future of Hungarian agriculture emerged as one of the priority issues in politics. The Orbán government, which was already in power at that time, provided a series of policy responses that triggered intense reactions and passions.

The Orbán government and the issue of Hungarian land

The Orbán government, which came back into power in 2010, theoretically espoused the following priorities with respect to land ownership: to ensure that Hungarian land would stay in Hungarian hands; that lands would be cultivated by landholders living nearby (rather than large landowners or agricultural corporations); and to increase the number of small and medium-sized lands and family-operated farms. These fundamental principles followed logically from the traditions of the Hungarian right, which – as we discussed in the previous section – is opposed to foreign capital and does not regard land as a commodity that should be freely sold but as a crucial and symbolically charged Hungarian resource. Yet in practice Fidesz violated the principles it had proclaimed in several respects.

The government announced a major land tender in 2012, during which it called for applications for the right to cultivate some 60,000 hectares of public lands. The land lease contracts were for rather extensive periods, namely 20 years. The right to apply was limited to family enterprises, primary agricultural producers, individual entrepreneurs and farming organisations whose place of residence or seat was within a twenty kilometre radius from the parcel they were applying for. But the tenders resulted in an enormous scandal. The opposition argued that the best and largest parcels of land were awarded to big businessmen with ties to Fidesz, and in some cases with ties directly to Prime Minister Viktor Orbán, while the rest of the lands consisted of such tiny parcels that their lease would be very unlikely to provide subsistence for individual family farms. One of the most striking examples was the award of some 1,000 hectares to Búzakalász 66 Ltd., a company owned by Lőrinc Mészáros, the mayor of Viktor Orbán's home village Felcsút and close friend of the prime minister. The way the land tenders were conducted appalled even the government's own state secretary in the Ministry of Rural Development, József Ángyán (whose previous political prominence had owed to his well-known attachment to the idea of small and medium-sized farms and opposition to large landholdings). Ángyán went on to publicly criticise the government – an unheard of move in Fidesz – and tendered his resignation. Ángyán claimed that the government's agricultural programme and land tender scheme was designed in response to pressure by influential "mafia families" and "speculators and plutocratic oligarchs".

In 2013, in consideration of the fact that the moratorium granted by the European Commission was due to expire the next year and other EU citizens would be allowed to buy land in Hungary, Parliament adopted a new Land Act. As the underlying goals of the new law Prime Minister Viktor Orbán designated the previously mentioned trio of Hungarian right-wing principles: preventing foreigners from buying land in Hungary; halting "speculation" in land and scaling back grand landholdings. Yet in reality, the new Land Act, too, was only rhetorically contrary to the interests of large landholders. Though it did in fact impede foreigners' access to land (with the help of the local so-called Land Committees, which are set up for deciding who can and who cannot own the Hungarian land), it did render public land resources accessible to entrepreneurs with ties to the governing party. This was in line with

numerous other government policies aimed at "protecting" a sector from foreigners or taking it back from them, and returning it to the "Hungarian people", which in practice meant only redistributing resources and business opportunities to domestic big businessmen. This was observed in the banking and gambling sectors, for example and in part in the energy sector as well.

The law allows farmers to own a maximum of 300 hectares, while in combination with the lease of public lands they can control a maximum of 1,200 hectares. At the same time, the law does not preclude tricky manoeuvres to exceed this limit and control considerably larger estates. Since each family member counts separately, effectively a three-member family can own/manager an estate of several thousands of hectares. This arrangement clearly favours the creation of large land estates and the positions of well-capitalised persons.

At the same time, it is also true that there are elements in the law that try to promote small and medium-sized farms by stipulating that control of marketable lands is almost exclusively limited to local farmers. After the state the right of pre-emption rests, in order of priority, with the current tenants, neighbouring farmers, other local farmers or other farmers who reside within a 20-kilometre radius. Moreover, land sales need to be approved by a land committee made up of local farmers.

Through these committees the 2013 Land Act wishes to forestall foreigners' acquisition of lands in Hungary. In theory, farmers from the EU may own 300 hectares of land, and combined with leased lands they can control up to 1,200 hectares – just as Hungarians. Opportunities are also open to foreigners if they buy a stake of at least 25% in a domestic agricultural company. In practice, however, land acquisitions by foreigners can be prevented by Land Committees made up of local farmers. Without the seal of approval from these committees, no one, be Hungarian or other EU citizen, can buy land. Land committees do not even have to justify why they rejected an acquisition. Ultimately, this is the instrument whereby the Hungarian government seeks to pre-empt land acquisitions by foreigners in a way that does not run counter to EU law.

Next year, in 2014, the government took further steps to prevent foreigners from purchasing or cultivating Hungarian lands. A new bill and a law amendment were adopted to annul the so-called pocket contracts and more effectively punish those who have been involved in this kind of legal transactions. Pocket contracts have often been used to circumvent the Land Act to conceal foreign ownership. These illegal contracts have been signed by Hungarian land-owners (usually from the Western part of Hungary) and non-Hungarian (usually Austrian) farmers to enable foreigners to own or use Hungarian lands.

Land privatisation 2015

Fidesz, which had won re-election in 2014, declared in the summer of 2015 that it planned to privatise some 400,000 hectares of state-owned land by the end of the year. This is more than half of all state-owned land, but only 7% of total agricultural land (both state and privately

owned) in Hungary. Since Fidesz had previously campaigned on the promise of retaining state-owned lands in public ownership, the privatisation announcement was a surprise for many – including Fidesz's own voters. Smaller plots of land measuring under three hectares are only announced, and then potential buyers can submit a bid and then buy the parcels of land. Greater parcels are auctioned off at the county seats and bidding starts at the market price plus 10%. Those who do not have sufficient funds at their disposal can still submit a bid because if necessary, the Hungarian Development Bank provides farmers that purchase land through the auction with a credit, including interest rate subsidies. Land that was thus purchased may not pass into the property of someone else, the sole exception being a legal inheritance. Should a sale or other transfer of deed nevertheless occur, then the land in question reverts back into the property of the state. Essentially, therefore, a thousand-year-old rule is revived, which limits the use of land as a commodity and forbids its sale – just as it had been the case in the medieval ages with the land donated by the king. To purchase land, a buyer must have been a loyal resident for at least three years and must be officially registered as a farmer. Those who have been leasing the land that is auctioned off for at least three years enjoy a right of pre-emption, but the maximum limit of 300 hectares per person still applies. There is no limit, however, on how much land can be managed altogether, and thus if all of someone's relatives purchase 300 hectares each, then this may be managed as part of a single farm, with the result that grand estates spanning several thousand hectares may be created.

It is important to stress that the lands now offered for auction are all currently under long-term lease agreements (periods of 30-50 years) for the purposes of farming. The occupants tend to be big agro-businessmen and agro-companies, usually with close ties to Fidesz. What this means in effect is that once the lands have been privatised, the new owners can only receive rent from the lessees, they can neither farm it nor collect EU farming subsidies. The exception is, of course, if the new owners coincide with the current lessees. Which bring us to the most important question: Why is Fidesz selling these lands right at this time?

There may be numerous reasons behind the sudden land privatisation plan, and hence we need to review several potential scenarios.

1. Initially, governmental communication on the subject emphasised that this is a way for Fidesz to prevent that Hungarian land end up in foreign hands by any way or means (for example as a result of pressure by the European Union). Yet this reasoning is patently false, for no one can actually force that Hungarian state lands be sold to foreigners. It is conceivable, however, that despite the government's best efforts privately owned land is ultimately sold by the owners to citizens of other EU countries.
2. The prime minister's other argument is that the land distribution is "realising a century-old promise by the Small Landholders, a traditional Hungarian rural right-wing party. This argument may even withstand scrutiny, if we interpret it as saying that Fidesz wants to shore up its support in small rural municipalities (where Jobbik is often as popular as the governing party) by handing over land to local bigwigs, opinion leaders and employers.

3. But there may also be other reasons behind the land privatisation. The state expects some 300 billion forints in income from the sale of lands, which is 2% of the Hungarian budget for this year. At the end of the year, the government wishes to keep the deficit in at under 3% at any price to comply with the relevant Maastricht Criterion. This would be easily met with the extra income from the land sales, indeed, it would give the government some wiggle room for further spending.
4. Ever since 2010 the Orbán government has been systematically constraining the manoeuvring room of future governments. According to the Fundamental Law, Hungary's new constitution, most key laws (also including the Land Act and tax laws) can only be amended or repealed by a two-thirds majority, which is why in the absence of such a supermajority any future government would essentially have to follow on the path previously charted by Fidesz. Through reshuffles of the banking, tobacco, gambling, energy and retail markets, non-Fidesz aligned businessmen and politicians have partly or largely been banished from these strategic sectors of the economy. The land privatisation scheme continues this trend, for the state has settled who may own/lease land and who may not for the coming 20 years. The Orbán government achieves this goal mainly by using subjective criteria in its tenders and by cherry-picking which state-owned land 'deserves' new, pro-government private owner or leaser and which one does not. Although, this is not without precedent in the Hungarian post-communist history – former conservative and left-wing governments sold state-owned land too -, but the mere scale of the 2015 land privatisation (almost 400,000 hectares) shows a systematic change in Hungarian land ownership, not just a simple sale.
5. The land privatisation project is also equally suitable for reinforcing or weakening the positions of current lessees, who are often major plutocrats or oligarchs. Those who argue that it serves primarily the goal of reinforcing pro-government oligarchs point out that the current lessees are most likely to buy the land for sale, and they are also the only ones for whom it is a good investment – they have the capital and they would definitely continue to be those who cultivate the land for decades to come. Moreover, they have a right of pre-emption. At the same time there are also those who claim the opposite objective, namely that the privatisation scheme serves as an instrument for the government to get rid of some (i.e. non-Fidesz-aligned) oligarchs who are currently leasing state-owned lands. The sale of the lands they use might open up the opportunity to renegotiate the effective land lease agreements, and the new owners might potentially be able to get rid of the old tenants.

Whichever scenario ends up being realised, the fact is that Hungarian agriculture still offers roughly 4-5% of the nation's GDP, and continues to offer jobs to some 190,000 persons who are directly employed in agriculture, and a further several hundred thousand whose work is indirectly dependent on this sector. And while that is the case, the historical processes and their underlying mechanisms of power will combine to make land in Hungary a political instrument in the hands of the powers that be, and this situation is likely to prevail for a long time to come.

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