

**JÓZSEF BOTOS AND KATALIN BOTOS: WHAT CAN  
BE EXPECTED AFTER JOINING THE EU?  
(Lisbon targets and Hungary)**

In connection with the EU accession, we need to study to what direction the EU itself intends to move. According to the Lisbon targets, the Community aims at becoming a region in the world which will establish a dynamically developing and science-based society with social cohesion and high employment.

Let us see how Hungary approaches these targets.

**Subtitle: I. A small country with many people**

Hungary's territory and population comprise 2.6 % of the whole of the EU. Thus, our geographical and demographic conditions are similar to the EU's. (If the territory of the latter were as large as that of Hungary, practically speaking, the size of its population would be the same as that of today's Hungary.)

If a few the EU countries had a territory as large as Hungary's, their population would be twice or three times the size of Hungary's today. To put it differently, countries much smaller than Hungary maintain the same or a larger population with higher living standards. In these countries, the per capita GDP is much greater than that in Hungary. Thus, theoretically, our territory would be able to maintain a much larger population with higher living standards.

Consequently, we are not 'too many'. Even if we cannot be called large regarding our territory and the size of our population, we are not small either. If the question is approached from an economic point of view and the medium state of development of the country is taken into account, the Hungarian market is remarkable: it ranks among the first 30 countries in the world. The size of Hungary's market equals those of Ireland, Denmark and Norway. Although Ukraine's territory is six times

the area of Hungary and has a population five times the size of Hungary's, its consumer market is smaller than the Hungarian one.

Up till now, our rate of growth has been twice the EU average. Since our state of development - per capita GDP - is half that of the EU average, with this rate of growth, we hardly come close to the average level of development in the EU. We need almost 30 years to catch up with the EU, if the present rates are maintained. However, history has shown that nobody has been able to keep such a high rate of growth over 30 years. (It can be maintained for a shorter period of time but not for long.)

### **Subtitle: 2. Agriculture - Are we welcome or unwelcome in the EU?**

Joining the EU two things come to everybody's mind, namely: intensive foreign attention to Hungarian land and the fact that our farmers will get much less support than those of the existing EU Member States. Are we welcome or unwelcome in the EU? Both may be right.

Ploughable land in Hungary is 50% larger than the EU average, so we are well supplied with arable soil. This is exploited to a great extent because more than 80% of ploughable land is cultivated, although nowadays large patches of uncultivated land can be seen all over the country...The corresponding figure in the EU is 60%. Taking into account the whole area, it can be said that 50% of Hungary's territory is cultivated, while the corresponding figure in the EU is only 25%. On a greater part of the cultivated land, cereals are grown. The per capita corn production in Hungary is among the top group in the world, approximately, at the US level; 771kg and 825kg, respectively. This level is approached by none of the EU countries where the highest figure is 35% (278kg in France) but the EU average is 107kg. In wheat production (505kg) Hungary ranks first, while

the EU average is only half of it (242kg). In vegetables and fruit production, Hungary exceeds the average but in this field there are countries with better results, mostly in the southern part of the EU. As far as meat production is concerned, Hungary's output exceeds consumption to a greater extent than that in the large the EU countries (only Denmark and the Netherlands exceed the Hungarian surplus in this field.) Data indicate that the EU has always considered agriculture a strategic branch and sought to guarantee self-sufficiency in agricultural produce - at least, at the Community level - and it is a considerable exporter of farm produce. But it can be seen that Hungary's export-orientation is more intensive than that of the EU. For us it is vital since the agriculture and food industry is the sector which shows a significant foreign exchange surplus in exports. It is true that the share of Hungarian agriculture in exports was only 7.5% in 2001 (a decade before it had been 20%), while manufacturing exports made up 60%. These two branches are responsible for surpluses but agriculture has the lion's share in them. While manufacturing exports result only in a 1% export surplus (210m euro), the agrarian sector produces a nearly 60% surplus out of its exports (1.5 billion euro), and the imports of the agriculture and food industry make up only 43%. (By the way, this proportion might be smaller if the large food sales networks did not prefer the products of their the EU parent countries...)

We must draw the following conclusion: if the agrarian sector is important for the EU, it is all the more so for us. Consequently, Hungarian economic policy should handle this question in compliance with the aforesaid. This is not the voice of the farmers' lobby but it is of vital importance for the Hungarian economy.

**Subtitle: 3. Let us see how we stand with science-based society**

Kuno Klebelsberg, the one-time prominent Minister of Culture in Hungary, said in Parliament: I request a great support for national defence... His reply to the question as to what a Minister of Culture had to do with national defence was that without a dramatic increase in the cultural and knowledge level, national defence would become hopeless...

The situation is the same today as well! Let us see where this strategic branch stands, compared to the EU. How much do we spend on elementary (i.e. basic), secondary and higher education? How much is spent on research? Are there enough human resources at our disposal?

It should be noted that, concerning the GDP ratio spent on the aforesaid, we are where the EU stands. Is it enough? And what do the average data cover?

If we calculate with purchasing power parities, which are more suitable for such comparisons than those made at official exchange rates, it can be claimed that expenditure per student in Hungary is at half the EU average. Obviously, with this proportion we cannot increase our competitiveness either inside or outside the EU. It is informative to analyse the breakdown of figures as well. In primary education, EU expenditure is nearly twice and in secondary education it is approximately three times that of Hungarian expenditure. In higher education the EU spends 60% more than Hungary does. Let us see the most important item of expenditure, i.e. that of teachers/professors. In primary education, we have the same number of teachers as the EU; in the secondary education of the EU countries, the number of students is 25% fewer than in Hungary. But this also means that the salaries of Hungarian teachers are much lower than the EU level. In EU higher education, the number of professors is 15-20 higher than in Hungary. Perhaps here 'tutoring' is the most

important thing since elite education may not be guaranteed by 'mass production'. (On making comparisons, data of all countries were calculated per 10m persons.) It should be noted that - taking into account the reduction in the number of children - per capita financing of education will be concomitant with the decline of the level of higher educational institutions and the reduction in the number of professors, which will be unfavourable from the aspect of competitiveness.

But let us study what degrees/diplomas are awarded. According to OECD data, in Hungary the number of teaching diplomas are the highest. Teachers are employed, primarily, in secondary schools and, as has been pointed out, their number is higher than that in the EU. But if nowadays the number of teachers is already too high in Hungary - and since teaching may also be a life-long career -, where will the great number of degree-holders who better meet the requirements of modern times, probably, due to their age, find a job? What can be expected? Obviously, there will be a tension between generations and unemployment (changing career, further training, seeking to acquire new qualifications and further degrees) may be expected as well.

In several EU countries (Germany, Sweden, Finland) there are more degrees awarded in technology than in Hungary and, in most of the EU Member States, the number of degree-holders in health care is above that of Hungary's. (In Germany, Italy and Great Britain the relevant figures are twice as much or higher.) The proportion of arts degree-holders in Hungary is low - perceptibly, we cannot afford the luxury of beauty... In social sciences we are roughly at the same level, probably, somewhat below the average.

As far as research is concerned, it is known that the proportion of research expenditure to GDP (2000) is well below 1% (at 0.8%).

The EU average in this field is twice the figure. In the EU countries approximately the same amount is spent on defence and research while in Hungary the amount spent on national defence is twice the sum spent on research. (The Hungarian figures refer to 2000; the research data of the EU countries are from 1993. Source: *International Statistical Yearbook 2001*, Central Statistical Office. The defence data are from 1999.)

In Hungary, every 360th person is in an R & D job; every 210th person is employed in defence, so in Hungary there are two soldiers for every researcher.

In the EU, disregarding the southern countries where there are even fewer people employed in research than in Hungary, the average figure is around 200. In Scandinavia every 130th and in Germany every 180th works in research. As far as defence is concerned, the EU average is close to the Hungarian figure but some data should be highlighted: in Germany every 248th, in Great Britain every 269th and in the Netherlands every 293rd is employed in defence. Typically, more soldiers per capita are employed in small countries - in the highly advanced North and the less developed South. However, in the small, advanced countries in the North there are proportionately more people in research,. Thus, the EU gives equal preference to both fields in employment policy, not to mention the fact that a high technological level is an essential element of modern warfare. Perhaps, it is vain to draw conclusions but if the above-mentioned figures do not change, we can hardly catch up with the science-based the EU economy. Obviously, the relationship with the per capita GDP ratio is not one-sided. By all means, the state of development is the highest where most people are concerned with research...

#### **Subtitle: 4. Social cohesion and competitiveness**

Solidarity is the token of social peace, not only between the poor of the same level (this is an ancient form of solidarity) but between the poor and the rich in modern society through the realization of a compulsory system of redistribution (taxes, social security etc.) Even under full employment, the question of the just distribution of incomes is raised. It is all the more so when there is a high unemployment. It is not surprising that in the EU, that, up till now, has proclaimed itself the champion of social market economy based on solidarity, the high rate of unemployment is Problem No 1.

The other one is lack of competitiveness in the world market and the recession concomitant with it. How will the Lisbon target be met?

Recently, parallel to comparatively low unemployment, Hungary's growth rates have been relatively high. (The respective figures for the EU: 7.6, and for Hungary: 5.7, in 2001.) But it should be added that the Hungarian activity rate is significantly lower than that in the EU. Disregarding Greek and Italian data, the proportion of the active Hungarian population is the smallest among the EU countries. This fact lays heavier burdens of solidarity on the Hungarian economy.

It is a question whether the relatively low unemployment rate will persist in the Hungarian economy after joining the EU. Now let us turn to compare the data on corporate structures in Hungary and the EU!

In Hungary the proportion of small businesses is relatively high. In 2001 out of 372,000 operating businesses, 342,000 were micro ones, i.e. almost 92% of all undertakings belonged to this category. To this are added the so-called 'individual entrepreneurs' who make out bills, although they are not legal entities. In total, 800,000 small entrepreneurs employ themselves, pay little into the common 'purse', the Budget, - but, at least, they do not require a share of it. They do not queue for

unemployment benefits but try somehow to earn their living. 'The individual entrepreneur' is not an accepted category in the EU. Here the level of minimum capital requirement of businesses is higher than that of the majority of existing small businesses in Hungary, therefore the vitality of this category after joining the EU is highly dubious. Data may be analysed from another aspect as well. The number of operating businesses are grouped by sector in statistics. In order to compare data, we have given the number of the EU businesses projected to 10m persons.

In the EU countries, too, trade and tourism are leading ones among businesses. But in Hungary in this field the number of undertakings is twice the average. Only Spanish and Portuguese figures are of a similar magnitude owing to the great number of tourist establishments in these countries. (Hungarian data: 240,000; Italy: 196,000; Portugal: 285,000; Spain: 258,000. It is interesting that in Austria the relevant figure is only 123,000; the role of tourism is of great importance there though.) But in the field of real estate business (!) and other economic services, we are at the top of the list. Compared to our 246,000 businesses, the other countries are lagging far behind (Austria 49,000; Germany 82,000; France 89,000).

Although in the processing and construction industries there are far fewer businesses (82,000 or 73,000, respectively), they are twice/three times the number in the comparable data of most the EU countries. From this we can draw nothing but the conclusion that a significant part of our businesses will fail to operate after joining. Consequently, the unemployment rate is likely to increase. This may be averted only if the dynamic growth of the economy is able to absorb the legions of those who lose their jobs. There might not be a great chance for this since the motors of economic growth are the multinationals whose share in the employment of people is small. Eighty per cent of the employed

work is in Hungarian-owned businesses although more than half of the companies are foreign owned. This also demonstrates how important the role of domestic-owned (self-) employment plays in keeping a low level of unemployment. To put it differently, the inflow of foreign capital only marginally helped employment. Naturally, this statement may be formulated positively, too, i.e. productivity is high in foreign-owned companies. Consequently, per capita costs are lower, therefore the international productivity of these businesses is ensured. However, as has been mentioned, the main sector of exports has played a relatively small part in Hungary's foreign exchange surplus. Analyses have also revealed that the per capita capital in the globalized multinationals in Hungary is not too high either, i.e. the inflow of FDI, the foreign venture capital, has not resulted either in the emergence of large companies with a considerable capital strength but in the appearance of rather unstable businesses with remarkable amount of foreign sources. This fact may be explained by several causes. What is the use of the establishment of these enterprises if the expenses of their operation are increased by the costs of credit, i.e. their profits are relatively low?

The reply is simple: the assessable income is also small. And nowadays, in a globalized world, external financing may be assured by a financial affiliate, too, which belongs to a holding company registered in a tax haven. Eventually, the owners of the global holding are able to benefit from the aforesaid undertaking. If the logical reasoning of ours is right, it will be evident that the analysis of macroeconomic data is not enough to assess whether economic policy proceeds in a good direction, and it is not enough to forecast what Hungarian society and the competitiveness of its economy will be like after joining the EU.