

1. Introduction

World-wide, 'cottage industries' are one of the oldest forms of industry or economic activity and, by the 19th century, the sector featured significantly in production in developed West European countries. In the late 19th century, the Hungarian government first examined comprehensively the development potential of cottage industries based on Western experience. In Hungary, of course, the main problem was the employment of agricultural workers during the winter, and cottage industries seemed to be an obvious solution. State organisation of the sector was introduced by the Minister of Commerce, Gabor Baross, and paralleled the development of the Hungarian economy.

The topic is linked in several ways to Rural Development, as cottage industry cooperatives employed many disadvantaged – mostly female – workers in rural areas, economically and artistically successful whilst, at the same time, preserving both the cultural heritage and handicraft techniques. The 'European Charter of Rural Areas' is one of the foundation documents for Rural Development and several clauses mirror, in their objectives, the goals which the cooperatives had earlier achieved.

In the European Charter for Rural Areas the employment of women [Article 10, b)], the creation of diverse and attractive employment opportunities for people in rural areas [Article 10, a)], the promotion of the production of regional products and their marketing [Article 11, c)], the expansion of agricultural and non agricultural activities, the support of alternative employment options should agricultural work not generate enough revenue [Article 12, 2, a)], and the strengthening of a region's cultural identity in rural population [Article 17. b)] are all important aims. Research into the history of cottage industries might provide useful information on past experiences and might serve as a solid base for the resolution of today's problems in rural areas.

A reorganisation of cottage industries to accord with 21st century needs (based on locally produced natural raw materials and local handicraft techniques) could be a good way to fight unemployment and can also contribute to quality rural tourism.

2. The state organisation of cottage industries in Hungary

Despite the fact that cottage industries are one of the oldest forms of industry, its central organisation in Hungary began only after the Reconciliation. In 1876, the Ninth International Statistical Congress was held in Hungary, and one of the main topics was to create an appropriate definition for cottage industries. This itself shows how important the sector had become in that period. The participants also defined 2 types of cottage industry: The term "industrial" was 'applied when a company's products depend or independent workers in their home, where the company buys the products (or parts of the products) at a unit price, whilst usually providing the necessary raw

materials to the home-based workers. By contrast, the term “national cottage industry” was used when referring to production undertaken by agricultural workers as a side-line and to avoid wasting the “down-time” or unoccupied time of the agricultural year. The “industrial” character was dominant in Western Europe where cottage industries were closely linked to the capitalist economy. This form of production has achieved an outstanding level of development in France, Germany, Belgium and England. “National” cottage industry was more common in East European countries such as Hungary, where the main reason for national organisation was to employ an essentially agrarian population. By then the main cottage industry centres lay on the peripheries of the country:

Table 1 Main cottage industry centres in Hungary, 2nd half of 19th century



Source: Paládi-Kovács et al (eds)(1988-2002): Magyar Néprajz [Hungarian Folklore], 3rd volume, p. 26

2.1 Pre-World War I

In Hungary, the Central Association of Cottage Industries was formed in 1876 but, after a short period (in 1883) was absorbed by the National Industrial Association's Cottage Industries Section. After these initial attempts, Gabor Baross, the then Minister of Commerce, initiated a complex organisation of the sector. He wished to develop the agrarian economy by boosting industry and trade. First of all, he considered subventions from regions where cottage industry had strong traditions as economically rational. He showed an essentially economic approach to cottage industries and considered the sector to be a sound tool to cut emigration and to catch up with the main economy. The basic seasonality of agriculture has always left a large potential work-force unemployed from the end of October until the end of March. 'With a unilateral agrarian occupation, a state budget in excess

of a billion cannot depend on any solid base since, in the event of bad weather, people would neither have income on which to live, nor the means to pay taxes and other charges.' [Pum, 1914]. Several delegations travelled abroad to study the experiences in more developed countries. Baross thought that the most important means to strengthen cottage industries were the development of sales and the acquisition of new markets with the involvement of contractors. They created in 1894 the Cottage Industries Bazaar in Budapest to promote cottage industrial products during the Christmas period. Also in the same year the Isabella Cottage Industry Association – under the patronage of the Archduchess Isabella - was founded in Bratislava to promote especially the Felvidék traditional embroidery. The Association received notable amounts of aid on several occasions from the Ministry of Commerce, and they were able, with this state assistance, to operate a sales outlet for their products in a most prestigious district of Vienna.

At the Budapest 1896 Millennium Exhibition an ethnographic village was created with 12 Hungarian and 12 other ethnic houses furnished with original folk art items. On this occasion, the government assessed the situation of cottage industries and the 'Inventory of Hungarian Cottage Industries' was published [Gy. Kovacs, 1898]. The book had been compiled based on official statistics, industrial reports and private collections. Eleven industries were named as comprising this category. According to the statistics from a comprehensive study made in 1900 by Jozsef Pum, 537,250 people in the country were engaged in cottage industries, of whom 399,946 worked in the textile industry. It is interesting to note that the great majority in the textile sub-sector were women, as, of the above number, only 5,413 were men. A great help to the welfare of the poorer classes was the foundation of the National Central Credit Cooperative in 1898 with a multimillion capital base provided by the state. In 1899, the Hungarian Commercial Company Plc took over the sales of cottage industry products from the Museum of Commerce, but, due to poorer-than-expected results in 1909 they handed over the right to the National Association of Hungarian Cottage Industries founded in the previous year. Archduchess Isabella was the patron of the Association, which then signed a 10-year contract with the Ministry of Commerce, with its main objective to find new markets for cottage industry products – both at home and abroad – and, for this purpose, it received 200,000 coronas as working capital. In addition to the Ministry of Commerce, the Association's activities were also supported by the Ministry of Education and Religion, and by the Ministry of Agriculture. Further, the history of what is now a renowned 'Hungaricum' - Halas lace - began in those favourable times thanks to Árpád Dékan. However, even with these positive results no overall legislation on cottage industries was enacted and the sector was mainly guided by Ministry of Commerce regulations.

2.2 The inter-war years

World War I interrupted this development process, and the country had to face the new realities of post-Trianon Hungary, as most of the traditionally dynamic cottage industry centres were outside the new borders. The loss of these now detached areas, the increased density of population and the devastation caused by the war had brought serious employment problems and so cottage industries once again were in the focus of attention. In 1926, the state undertook a thorough survey of cottage industries in the 8 Chamber of Commerce and Industry areas and found that a total of 82,822 workers in 1,019 villages worked in the sector. although these numbers were not representative of truly 'marketable' producers. To benefit from this potential, the Ministry of Commerce focused on a complex reorganisation of the sector and on increase the range of marketable products. Civic organisations re-started their work and primarily supported folk-art-style, cottage industries - sometimes spiced with strong nationalistic overtones. The National Association of Hungarian Women - one of the most influential women's organisations in the country - for example, established 130 weaving communities to support cottage industry, the most famous being equipped by Mrs Horthy in the Buda Castle. As a result of their activities, Hungarian embroidery and lace once more became fashionable, and in 1929 a Hungarian Shop was opened in the prestigious Vigadó building.

Parliament's Act XII of 1922 on Industry (which amended Act XVII of 1884) in Paragraph 27 provided the right to the Minister of Commerce to determine cottage industry sub-sectors for regulatory purposes. The absence of comprehensive legislation, and, therefore, the lack of appropriate definitions, produced several special cases in which the Ministry had been forced to settle cases. Therefore, the Ministry had to create various regulations to apply to such cases as homemade bread and slipper-making. In the inter-war period, first the Inspectorate of Cottage Industries, and, later, the Hungarian Centre for Cottage Industries oversaw the development of the sector, and the country was divided into nine regional inspectorates. These inspectorates addressed issues such as the purchase of raw materials, education and the marketing of finished products.

2.3 Post-World War II

Cottage industries were not spared from the ravages of World War II. In order to revive the sector the government formed County Inspectorates for Cottage Industries and in 1946 they established the National Council for Cottage Industries and an inventory of the sector was undertaken. It was typical of this period to set up cottage industry groups in agricultural cooperatives to revive the traditional techniques. To solve the constant sales problems, the government founded the National Cottage Industry Corporation in 1948. In accord with Socialist economic policy, cottage industries were also pressured into cooperatives. The existing connection between the sector and folk

art remained strong and a movement to conserve values but to change the approach was consciously undertaken. The name given to the concept was “applied folk art”¹. Small-scale industrial cooperatives and their supervising organ, the OKISZ (National Organisation of Small-scale Cooperatives) were also founded in this period. The Cabinet Council of the Hungarian People's Republic in its Decree 2034/1953 and also in its Ruling 34/1953 (on the definition of cottage industry and applied folk art activities) created a new model. HISZÖV (the National Organisation of Cottage Industries and Applied Folk Art Cooperatives) and NIT (the Applied Folk Arts Council) were formed. The decrees regulated the definitions of a Cottage Industry Worker and of an Applied Folk Artist, and they provided a detailed list of goods to be produced.

1. § *(1) A cottage industry worker is a person who (normally manually) prepares, alone or with the help of family members, cottage industry items at his home or in a cooperative without employing outside workers.*

(2) Applied folk artist is the person, who creates individual items with artistic value in the field of applied folk arts and who is accepted as an applied folk artist by the Applied Folk Arts Council.

HISZÖV's task was the co-management, monitoring and control of cottage industry and applied folk art cooperatives, whilst NIT oversaw the preservation of folk art traditions and supervised the folk artists who worked in cooperatives or independently. One of the latter's main activities was to judge products and another very important measure was the setting-up of the Applied Folk Art Fund financed from the profit of cottage industry and applied folk art cooperatives (10% of their annual profit was paid to this Fund). This was to cover the establishment of a *tájház*² (and the associated collection of furniture, equipment and tools) art materials, exhibitions and promotional publications. Many forgotten crafts were re-discovered in this way.

National Cottage Industries plc was transformed into the Cottage Industry and Folk Art Company, and, according to Regulation 34/1953 only this company could sell any cottage industry or applied folk art product outside the private market sales of artists and cooperatives. The company was responsible for marketing, for shop network-building and they also collected the goods from the producers. Additionally the company actively searched for masters of traditional crafts and provided start-up assistance for new areas. In order to achieve the goals the government consolidated the company financially and in the 50s every county seat had a folk art shop. Cottage industry and

¹ This definition was proposed by Mária Kresz, a famous ethnograph, at a conference in Győr, Hungary in 1952. The participants also asked the government to settle the situation of cottage industry and applied folk art cooperatives.

² The “*tájház*” is a unique Hungarian institution or phenomenon – a house built strictly in the local style and fitted with authentic furniture, tools and equipment network to show life as in another age. They are found in many settlements or communities across Hungary. The concept is so special that it features on the UNESCO nomination list as a Hungarian contribution to cultural world heritage

applied folk art products had enormous success at the exhibition held in the Budapest Art Gallery (Múcsarnok) in 1958 and so the domestic demand increased and was also promoted by the new housing projects. In the 1958 Brussels World Exhibition, the potter, Sandor Kantor, won the Grand Prix, and at the 1963 Paris World Exhibition Bela Tóthfalussy Bela's leather gourd received an Oscar, so arousing great international interest in the work of Hungarian artists. In the 60s, the country was "discovered" by international tourism with a spectacular increase in the number of visiting tourists. These factors greatly strengthened the cottage industry cooperatives in economic terms. The changes in the object culture brought about a need for a functional change in produced goods. For this reason, NIT had set up design departments in some units to help the cooperatives' work. In 1967, 74 applied folk art and cottage industry cooperatives were operating in the country, with a production value approaching HUF 1 billion, of which HUF 150 million represented jury-selected applied folk art products.

1968 was a very significant year in the socialist era, since this was the beginning of the new economic mechanism. This started a form of decentralisation and most economic decisions directly affecting the work of cooperatives were transferred to them. Instead of centrally supported design departments, some cooperatives preferred to employ directly an art director or to form a design section. A survey was conducted in 1977 where 67 applied folk art and cottage industry cooperatives were listed with some basic data – in fact, employing a total of 44,308 people and producing a value of HUF 2.77 billion³. The jury-selected works represented a value of more than HUF 500 million, and so their proportion (18%) remained in the same area of total production terms as in 1967 (15%).

In order to illustrate the development, I would like to highlight one of the largest and best known cooperatives in which the jury-selection system predominated - the Matyó Folk Art and Cottage Industry Cooperative. The juried items represented about 75% of total production. The product structure was modified several times, but among the best-selling goods featured children's embroidered blouses, table runners with the characteristic Matyó patterns, painted plates and folklore dolls. By 1980, the cooperative had groups of home-workers in 34 villages and exports represented close to 30% of total sales.

³ Summary of the author

Table 2 – Main indicators of the Matyó Cooperative’s folk art and cottage industries operation 1952-1980

Year	Income HUF	Profit Huf	Profit as % of income	Change of income Base=previous period	Change of profit Base=previous period
1952	2 865 000	281 000	9.81%		
1962	15 400 000	1 800 000	11.69%	537.52%	640.57%
1972	59 000 000	12 500 000	21.19%	383.12%	694.44%
1980	97 650 000	14 200 000	14.54%	165.51%	113.60%

Source: Matyó Népművészeti és Háziipari Szövetkezet [Matyó Folk Art and Cottage Industry Cooperative](1981), and the author’s calculations

This table shows that the explosive development of cooperatives had slowed down by the 80’s. In the first two decades, profit increased more dynamically than turnover, but in 1980 the percentage was lower. This shows that, despite a growth in market demand, the profitability of cooperatives had decreased. The profit as a percentage of turnover also fell, whilst the number of home workers grew rapidly. At the beginning, only 8 persons were working at the cooperative’s workshop, and 550 from home, whilst in 1980 there were already 535 workers in the workshops, home-workers had increased to nearly 1,800, and, in addition, some 500 retired home-workers were also involved. The growing payroll burden seriously affected the cooperatives, and the Matyó cooperative was liquidated in 2004.

The Cottage Industry and Folk Art Company also had to face multiple problems, as the pre-determined margin on folk art products was reduced to 15% (from 21%) with a significant effect on profitability. The actual profit realised decreased in 1982 to 1/6th of that of its most successful year (1975). In the 1980s the so-called ‘golden age’ was over, although a network of nearly 80 stores helped sales. However, the increasing payroll paralysed the cooperatives, and, in addition, a growing number of folk artists and Masters of Folk Art left their group since, as individuals, their tax liabilities were much more favourable. In the 80s, increased social security contributions and the newly-introduced payroll tax became unbearable for cooperatives, due to their high wages-to-production cost ratio (almost 40%). OKISZ provided some compensation to the cooperatives – specifically, up to 80% of their lost profit from the so-called Mutual Aid Fund, but this did not constitute an acceptable and sustainable solution for the long-term. Conflict between OKISZ and the Folk Art Cooperatives sharpened. In 1981, OKISZ abolished the HISZÖV network and the cottage industry cooperatives were transferred to the industrial organisation. Hungary’s economic situation gradually deteriorated and both domestic and international demand decreased.

After the change in the system the Folk Art and Cottage Industry Company was transformed into Folkart Trade plc, but the shares were not distributed among the folk art cooperatives but proportionately among all of the industrial cooperatives. Then, at a fraction of their real value, the shares were acquired by a private contractor. The new owner – who became a major property developer in Budapest – saw little creativity in folk art, but was very interested in the (perfectly located) shop network. Sales opportunities for the remaining cooperatives simply disappeared, and in the difficult macroeconomic situation, nearly all of the folk art cooperatives were liquidated.

3. The current situation

In the current legislation, the key-word search for ‘cottage industry’ had 3 results, but none referred to a relevant regulation; the word was merely mentioned. After the change in the political system, a different approach to economic development came to the fore in which cooperatives were no longer favoured. However, experience shows that the majority of workers and artists did not find their way in the market economy after the liquidation of the cooperatives. Under communism, the market was both closed and planned, prices were not determined by the market, and we cannot talk about true competition. Craftsmen were struggling to keep up with the rapid changes and most of them simply could not adapt to a free market economy. A very interesting project was initiated in Hungary in 1991 by AID TO ARTISANS (ATA), a non-profit organisation funded by the Ford foundation and USAID. Their main objective was to provide business training, to help new product development and to improve export sales and USA trade connections. During the project, 163 new project designs were created, they organised 8 exhibitions at international trade shows and total sales had reached \$1.1 billion by the end of the project. 233 jobs were created and maintained (for a minimum of 10 years) as a direct result of these project activities. To assess the long-term results of the project, the leaders returned to Hungary in 2004. They found that their partner cooperatives had been liquidated – except for the Heves Folk Art Cooperative - and also that the individual artists were struggling to survive. Only one Master of Folk Art, Imre Szűcs, had a very successful pottery business, the remainder being about to close down their operations. Artists had had great difficulties in keeping up with market trends on their own – that is, without ATA’s direct assistance. In fact, there are numerous civic organisations and clusters trying to promote handicrafts, but, in the absence of some level of stable subvention from the state, a real break-through cannot be expected in rural employment’ and sales.

4. Future perspectives

The research is not yet complete, but I am endeavouring to set up some major guidelines for a possible future development of cottage industries. Since we have today the strong presence of

competitive and cheap products from China and India, a developed product line must have unique and distinctive characteristics, and it seems perfectly logical to use the potential of our folk art and traditional techniques in much the same way as in earlier times. However, such a concept cannot be realised on a crude “market forces” basis, since its development must entail a complex education and development programme.

When education, the procurement of raw materials and marketing were coordinated at national, regional and local levels, the sector could develop rapidly. Nowadays, decentralisation has had the opposite effect, as funds are divided among numerous civic organisations, although none has enough resources to start a large-scale complex project.

Hungary has one of the lowest economic activity and employment rates in the EU within the population of 15-64, with only Malta lagging behind. In 2009, the economic activity rate in Hungary was 61,6% while the EU 27 average was 71,1%, and the the employment rate was 55,4% while the EU 27 average was 64,6%.

In many rural areas a vicious circle has appeared, with unemployment resulting in depression, alcoholism and crime. Hungary’s current situation has clear similarities with earlier periods where rural unemployment’ was high and cottage industries were seen as a tool to provide work for people in rural areas.

A complex design-driven educational and training programme based on traditional handicraft techniques and locally produced natural raw materials might be one successful way to reduce regional disparities and to enhance social cohesion. People living in rural areas do not have appropriate knowledge of world trends, design and export markets, but in Hungary – due to the focus on collecting and preserving traditional crafts and motifs – there are highly skilled craftsmen who could be integrated into such a programme. Despite their skills, however, today most of these struggle to keep up with trends and to live with the market economy. In the socialist era, market mechanisms were completely different, and, in addition, strong barriers to the free flow of information exist in the form of language-knowledge.

This does not mean that the state has to open new shops. In fact, it would almost certainly be more effective to unite existing shops within a franchise system and with a common brand. This is, for example, the method used in Slovakia. The Slovak Handicraft and Folk Art Association’s name is ULUV, and they have had a history very similar to that of Hungary. However, ULUV was able to avoid privatisation and to reform their operation very successfully, keeping up with changed market conditions. The organisation is financed by the Ministry of Culture, and they still have 7 shops across Slovakia.

Ethical trade, sustainable development and organic production are concepts currently in focus, and a long-term development project could – at one and the same time - form both the supply and demand sides within our sector. The development of cottage industries in rural areas could promote agriculture, contribute to quality rural tourism and strengthen local and regional identity. It could be an appropriate alternative for those living on social aid or on communal work only, but this development must focus heavily on design, marketing and sales if the main objectives are to be achieved.

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The official website of the Slovakian ULUV – The Centre For Folk Art Production

<http://www.uluv.sk/en/web/home/>