

Hungarian Spaces and Places: Patterns of Transition

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Politics, Society and Economy in Space: Spatial Processes in the Era of Transition in Hungary

Judit Timár, Györgyi Barta,
Éva G.Fekete and Irén Kukorelli Szörényiné

Although a decade and a half has passed, Hungary's transition from state socialism to capitalism and the switchover to market economy and democracy are far from being a closed issue for anyone striving to understand economic, social, political and spatial processes in the early years of the 21st century and place them in the current global processes of transformation. No consensus has been reached on '*the dimension of time*', i.e. whether or not transition is over, an issue that is, at first sight, easy to solve. Kornai (2005) considers indisputable changes, (i) a new political structure and related ideologies; (ii) fundamental changes in ownership; and (iii) co-ordination mechanisms (market and administrative co-ordination), in the three fundamental characteristics of major political systems as ultimate evidence of the occurrence of the political regime change in Hungary. Lengyel (2000) divides transition into two phases. He asserts that the important missions of the first phase of the regime change, e.g. liberalisation, privatisation, institutional reform and economic stabilisation, were accomplished already at the turn of the millennium. National and international integration, however, has not yet been completed. Köves (2000) claims that accession to the European Union, as a milestone in Hungary's international integration, is the final momentum in the process of transition. By contrast, Losoncz (2005) argues that distinction must be made between accession to the EU and full membership. The transition status of Hungary (and other new member countries) is expected to last yet another 3 to 10 years.

One of the underlying reasons for contrasting explanations is differences in approach. Political, economic and social structures, no matter how inseparably interwoven they are, each took a different path. As evidenced by some of the above assertions, there seems to be general consensus that it was *political transition* that took a relatively short time, i.e. only a few years, to occur. This was followed by *economic transition*. According to a 2004 survey of 27 former socialist countries by the European Bank for Reconstruction and Development, Hungary, along with the Czech Republic, Estonia, Slovenia, Slovakia and Poland, took the lead in macro-

economic processes during the era of transition (Transition report 2004). Transition has been completed in the following areas: the privatisation of SMEs, price liberalisation, the transformation of the system of commerce and the reform of financial institutions. It is mainly corporate governance and competition policy where there seems to be some delay. Macro-economy is fragile in Hungary as well, which is mainly reflected in financial imbalances, protracted corporate growth, difficulties in access to credit, widespread corruption and underdeveloped infrastructural services (Buiter 2004). Sources of delay, these factors alone prove that *social transition* brings up the rear. Although on-going social differentiation has led to the emergence of new groups and actors of a capitalist society, neither social stratification nor relations between the individual social groups are yet stable. Social inequalities and winners and losers of the transition are dominant topics in social analyses of today's Hungary. It is no coincidence that the characteristics of and surviving cultural heritage in East Central European societies are an issue that is frequently addressed. It is a widespread view that it will take 40 to 50 years for a stable society in the new political regime to evolve.

How long will it take for a society that is, with respect to its operation, ridden with all the problems of transition to produce *spatial forms* that are not simply different from their former socialist counterparts, but expressly capitalistic, i.e. for spatial processes to pass through the stage of transition, in a new system of parliamentary democracy and under the conditions of market economy? If there exists 'post-socialist' production of space, what are its characteristics and what are the characteristics of its end-products? Seeking an answer to these and similar questions, this book, adopting two approaches, provides an outline of a few aspects of the spatial context of transition, while offering a new dimension to contemporary political, sociological and economic research in Hungary and, in part, East Central Europe:

- (i) 20 chapters in the first three parts are devoted to some spatial aspects, the geography and direct and indirect spatial impacts of (regional) political, economic and social transitions.
- (ii) 13 chapters in the next two parts focus on spatial processes themselves, taking stock of new changing patterns of spaces, places and uneven development in Hungary.

Regional Policy and Regionalisation in a New Hungary

History features heavily in studies on the interrelationships between the transformation of the political sphere and spatial processes. As early as in the 1980s Hungary underwent an economic and political crisis amplifying each other, resulting in *a crisis of the regime*, which soon turned into a *regime change*. The most radical outcomes of the political transition in the late 1980s and early 1990s were *geopolitical changes*. The institution of the so-called 'world passport' and cross-border co-operation on a local government level within the Alps-Adriatic Working Community were among the very first manifestations of a changed geopolitical landscape. The so-called 'Pan-European Picnic' in August 1989 was a milestone in

political transition. It was when Hungary allowed East-Germans to cross the border from Hungary into Austria, thereby paving the way for political changes in other East European countries. The urgency of a political regime change was further increased by increasingly vocal opinions that Hungary had to exit the Warsaw Pact. The central plank of the manifestos of the various political parties was the challenging of the Warsaw Pact and COMECON already in 1989, facilitating the conclusion of an agreement in 1990 on the withdrawal of the Russian troops stationed in Hungary. 1991 saw the dissolution of both and the outbreak of an ethnic conflict in the Balkans. With Czechoslovakia and Yugoslavia having fallen apart, Hungary's geopolitical status quo and the composition of its neighbouring countries had changed fundamentally by 1993. Negotiations over Hungary's NATO and EU accession got underway, leading to its joining the former in 1999 and accession to the latter on 1 May 2004. At the turn of the 21st century these two political events marked a historic turning point: the country's entering into a new alliance and a new type of co-operation (see in Hajdú, Chapter 2). With this, transition was over not only on the level of national policy, but also geopolitically.

A changed geopolitical landscape, closer integration into an increasingly globalised world, stronger international impacts and the emergence of a market economy resulted in growing regional inequalities. This in turn prompts several contributors to this book to ask the question of whether or not a new regional policy with related institutions, capable of addressing spatial inequalities, now reproduced by new capitalism, and the issue of spatial development, has materialised. As Enyedi (Chapter 1) puts it, the questions are whether or not national regional policy can carry out its duty of improving the competitiveness of the regions and settlements integrated into global systems and whether or not it can facilitate the integration of those that were marginalised during the very era of transition. The success of fulfilling these duties or the lack of it alone cannot serve as an ultimate evidence of whether or not Hungary's regional policy, following an EU pattern, has passed through the stage of transition. And the less so, as the EU's policy on competition favours centralisation, while its regional policy cannot offset inequalities arising from differing competition potential (see in Horváth, Chapter 3).

Regionalisation was perhaps the most contentious issue of regional policy in the 1990s. One of the most characteristic trends in transition in East Central Europe at the turn of the millennium, regionalisation is viewed in this book as a strong manifestation of politics and space mingling together. We believe that regionalisation mirrors new territorial configurations, while being the product and extension of spatial grids of *power* and the major embodiment of the 'colonisation of concrete space' (see in Gregory 2000: 646) in the Lefebvre sense. Faragó (Chapter 5) proposes that regionalisation, seeing that it has lost its ethnic or cultural justification since the Trianon Peace Treaty and that it is unjustified by the spatial ramifications of current economic processes, has become a political process triggered by EU integration. The main engine of establishing and operating regions in Hungary is pragmatist political regionalisation striving to obtain the largest possible number of external funds rather than a more efficient and democratic political regime. Horváth (Chapter 3) also agrees that, due to post-Fordian anti-

regional globalisation, the engines of economically-motivated regionalisation are missing despite the fact that regionalisation is an inevitable long-term objective to be met in the interest of economic growth in Hungary. He believes that viable regional policies and regions vested with solid power are the carriers of modernisation. However, as stressed by Pálné Kovács (Chapter 6), Hungarian regions are artificial formations in the sense that they are not based on regional identity, as there is no such identity or if there is, it is rather weak. Furthermore, the necessary institutional system has not been established either. She claims that regionalisation is not an obligation, rather it is modernisation and a democratic challenge, which requires vertical and horizontal co-operation, deeper social embeddedness and more democratic operation. After the antecedents in 1990s, regionalisation has picked up since 2002. Even the issue of establishing regional governments has been raised. For regional governments, as attested by the case of decentralised West European countries, could strengthen cohesion. That said, Pálné Kovács urges her readers to go further, asking whether the establishment of regional governments would precipitate decentralisation and whether such decentralisation would be genuine decentralisation, or, on the contrary, the establishment of regional governments would increase the influence of central governance.

Spatial planning is an essential tool of sound regional policies, an analysis of which, due to changes in it after the regime change, has also been included in this book. In the state socialist era socio-economic planning addressing spatial issues and technical planning with relevance to settlements were distinctly separate areas. Separation, as also reflected in the ministerial level separation of management, still persists. The regime change resulted in ignoring planning, calling its necessity to question. Prior to 1996, i.e. the passing of the Act on Regional Development and Physical Planning, spatial planning was carried out in a haphazard fashion. Regional development plans served as methodological experiences to see how plans, conforming to the EU's planning methodology, could be prepared. Although the act has given an impetus to planning, its approach still fails to connect its spatial aspect with the economic one. Despite the National Regional Development Concept, approved in 1998, the National Development Plan prepared in 2002 in order to become eligible for the EU's Structural Funds, and the National Physical Planning worked out in 2003, spatial planning still manifests signs of transition and is ridden with contradictions. Transition in spatial planning could be concluded by the formulation and passing of a comprehensive act on planning (see in Somlyódyné Pfeil, Chapter 7). In order for regions to operate successfully, they must have remarkable and feasible planning documents and development programmes. New location factors have appeared in the economy of 21st-century Europe and hence Hungary, including know-how, research, willingness to study and skills to develop technologies (see in Enyedi; Dóry, Chapters 1 and 4), for the management of which the regional level is the most suitable one. The competitiveness of the regions is expected to increase through preparation for the above and the implementation of a Regional Innovation Strategy (RIS), first announced in 1995, and a Regional Innovation and Technology Transfer Strategy (RITT). Based on an EU pattern, a

RIS tailored to the needs of the Central Transdanubian Region has already been formulated (see in Dóry, Chapter 4).

Based on the above, it is safe to say that, although efforts have been made to formulate an EU-compatible regional policy, no paradigm shift has yet materialised. Only when regions vested with political power as well as institutional and financial autonomy and capable of reconsidering and revising traditional regional policy and connecting to a space interwoven with networks emerge can such a shift be considered to have occurred (see in Enyedi, Chapter 1).

Spatial Processes in the Economy in the Era of Transition

The emergence of the market economy led to rapid re-arrangement in spatial differences and inequalities. The equalisation mechanism which characterised the spatial processes of the socialist economy was placed on completely new foundations and changed fundamentally. New actors entered the market in large numbers. A smaller number became independent through the disintegration of former large companies, however, the majority were new enterprises. A frenzy of hunting for business location began, reaching its height by the late 1990s. New spatial structures had also evolved.

The empirical studies included in this book do not cover the entire spectrum of the economy: they do not address the issue of the spatial transformation of health care, education and public administration, predominantly public sector responsibilities, which play an important role in spatial equalisation. They do deal, however, with the major sectors of the economy, which are mostly private and influence spatial processes, i.e. industry, agriculture, business services, transport and telecommunications. These are the very sectors that have also added to spatial differences.

- Studying the spatial processes of *industry*, Barta (Chapter 9) found that a new industrial spatial structure had evolved by the second half of the 1990s. Industrial development in the socialist era producing its north-south gap had been replaced by a sharp divide between the contiguous dynamic region of Northern Transdanubia and the Budapest agglomeration on the one hand, and a periphery that accounted for approximately 75% of the country's territory on the other.
- *Financial and business services* remained Budapest-centred or, if anything, their concentration in Budapest even increased. This is what the development of transport suggests (see in Erdősi, Chapter 13). This holds true especially for the spatial distribution of business services (see in Raffay, Chapter 11) and, within this, the financial sector, in particular (see in Gál, Chapter 12), and IT communication technology sectors (see in Barsi, Kanalas and Szarvák, Chapter 14) that have developed rapidly over the past 15 years. Two-thirds of these activities are concentrated in Budapest; it is also where all the banks are headquartered.
- Following household consumer patterns and purchasing power, a new spatial structure of *commerce* (see in Nagy, E., Chapter 10) had evolved by the turn of

the millennium. It was development mainly in large cities (among them Budapest) and the Western regions of the country that was more robust and that followed a Western pattern. The range of services provided in the Eastern regions, small towns and villages where economic growth is slower or flat is much more limited. The same duality can be identified in the financial sector: co-operative banks relying on an agrarian base are no match for Budapest-based large banks with a branch network density reflecting the spatial development of the economy (see in Gál, Chapter 12).

- The transformation of *agriculture* has been just the opposite of the spatial trends compared with the other sectors of the economy. The proportion of agricultural companies is higher in Northern Hungary and in the Northern and Southern Great Plain, while the Central Transdanubia region brings up the rear (see in Kovács, Chapter 15).

As regards the spatial imprint of economic transformation, the fact that the issue of the spatial relations of the economy has not been elaborated on in this book is no coincidence. With economic actors having selected their locations, economic agglomeration has got underway. However, developing company relations (networks and clusters) is still in its early days. A study of cores and peripheries by Nagy (Chapter 8) is not based on an analysis of actual economic relations between settlements. Rather, it is based on the assumption that when the economic potential of a spatial unit is defined, it is not enough to identify the unit's own performance. In order to present a comprehensive picture, the potential impact of all the other units must be taken into account. The underlying reason for this is that all settlements and regions exist as components/parts of a uniform economic space. An intriguing finding of the study is that the development of the metropolis is less dependent on economic trends in the rest of the country than the other way round. The author provides documentary evidence that Budapest is the token of Hungary's economic successes and highly instrumental in convergence with the EU.

Nearly all the papers included in this book identify significant and increasing spatial differences in the various economic sectors, while also addressing the role of policies on spatial development. Typically, sharp criticism is levelled at the central government and local governments, as they have been unable to mitigate spatial differentiation, which is an inevitable outcome of transition.

Social Trends in Transition

With respect to spatial processes, there are three major components of the social dimension of transition in Hungary as evidenced by economic and social changes after the political regime change:

- (i) *New social agents* have appeared or come to the forefront. They are also the new social agents of the production of space and direct spatial development. Their relationship with the state, i.e. the omnipotent agent of socialism, is undergoing continuous transformation.

- (ii) *Social relationships* have changed in a broader sense as a consequence of the political, economic and social transition, generating new spatial structures and disparities.
- (iii) Sensitivity to certain social problems that used to be ignored or hushed up has increased.

(i) *New social agents of the transition era* are entrepreneurs (the status received formal recognition in 1985; privatisation and unemployment led, out of necessity in the latter case, to the appearance of entrepreneurs on a mass scale), democratically elected local governments and institutions of public administration (major achievements of the regime change), political parties, citizen membership-based civil organisations and, as agents of direct spatial development, organisations of local development.

The impact of space and location on the number of new agents and their characteristics can be detected in all cases. Hierarchical diffusion (i.e. diffusion the direction of which points from larger units of the settlement network to smaller ones), which Nárai (see in Chapter 19) identified in the case of civil organisations along with their strong correlation with the development of the regional economy can also be pinpointed in the case of all other agents. The appearance of the new agents of the production of space depended on their capability of self-advocacy, depending on the size of the settlement in question, strategies of adjustment, which mostly depended on the level of regional development and the size-blind establishment of the new system of local governments. Lack of citizens' initiatives, which survived as a result of a long period of paternalism and was also reflected in the low number of the instances of self-advocacy, is stronger in smaller settlements (Szoboszlai 2002), while strategies based on legal loopholes and hence corruption command general support in less developed areas (Kováč 2002). A heavily fragmented and homogeneous spatial system of local governments has been unable to reduce these differences. On the contrary: it even added to them. The dominance of *the central government and local governments* affecting other participants and the key role that they played in social processes is a paradox of transition. While the regime change strove to demolish the centralised structures of the former single-party state, which also controlled redistribution, it was the central government and local governments that played a role in 'providing' the missing agents of a capitalist society. This in turn has led to a new kind of, nevertheless still strong, redistribution (Kováč 2002). Although there are non-governmental agents such as civil organisations and local developmental organisations, their dual nature, identified and perceived as dangerous by Nárai (Chapter 19), points to their dependence on the state and, hence, the strength of control that the government of the day can exercise over them. Due to an overpowering state and the weaknesses inherent in the spatial fragmentation of the local government system, a characteristic of the transition era, local development began to focus on a micro-regional level in the early 1990s and even more so later on. A paper by Szörényiné Kukorelli (Chapter 20) provides an outline of the long path that *micro-regional developmental associations* followed. Initially, they were civil organisations, then underwent transformation on a number

of occasions. Finally, they became embedded in the system of public administration, which further increased the dominant role of the central government.

(ii) One of the most shocking social changes was that society was inundated with conflicts arising from the switchover to the market economy, changes in power relations and integration into simultaneous globalisation (Ferge 2002a). The impact of such dramatic changes varied from one social group to the next (Szalai 2002). The analyses in this book (see in Jász and Szoboszlai; Váradi; Timár, Chapters 16–18) also highlight the spatial unevenness of this impact. New spatial inequalities were amplified by spatial differences in the serious causes of conflicts and the inadequate and spatially differentiated operation of community life, solidarity and trust affecting social immunity and social capital including all these (Kopp and Skrabski 1996).

One of the most serious social impacts of the switchover to the market economy and a democratic regime has been *poverty*, which increased in the wake of the disappearance of full employment and as a result of the livelihood strategies available, and which also integrates several different forms of social exclusion (Ferge 2002b). Following the dramatically rapid collapse of the institution of full employment, the recovery of the economy and the labour market was extremely uneven spatially, with a divide between the developed and the lagging regions of the country having widened into a gulf by the turn of the millennium. In addition to polarisation between the regions of growth and peripheries, another characteristic of spatial developments in social disadvantages is strengthening *segregation*, leading to the emergence of disadvantaged rural regions with an underclass population (see in Jász and Szoboszlai; Váradi; Bihari and Kovács, G.Fekete Chapters 16, 17, 21 and 28). As Jász and Szoboszlai (Chapter 16) point out, those hit by aggregate poverty, i.e. those in deep poverty, hardly stand a chance of getting out of this situation. On the contrary, they reproduce the socially excluded in growing numbers. Váradi (Chapter 17) highlights the fact that, based on black/informal work, social transfers and household jobs, their survival and livelihood strategies become increasingly fossilised. Simultaneously, former hierarchies have been restored and gained in strength and new ones created in local communities, which also add to social exclusion. Often, in making decisions and in the course of overcoming the disadvantages arising from spatial inequalities, households themselves sacrifice the possibility that more democratic gender relations can evolve (see in Timár, Chapter 18).

(iii) With respect to spatial processes, a remarkable component of changing social relations in the era of transition is that certain issues, whether old or new, are no longer hushed up. Often, they are placed in the spotlight or looked at from a different angle. Two such issues are also addressed, as subjects of separate analyses, in this book, given that regional policies cannot ignore them either mainly because of Hungary's EU accession.

– The *Roma* are undoubtedly the greatest losers of the regime change. Labour market, economic and social exclusion hits the majority of the Roma as a collective fate despite the unmistakable commencement of class formation and considerable regional differences (Ferge 2002b). Their social integration has

become one of the most crucial issues in present-day Hungary. An analysis by Jász and Szoboszlai (Chapter 16) identifies spatial differences in the life conditions and strategies of the Roma, and outlines the regional initiatives aimed at helping them to get out of deep poverty.

- By contrast, as regards *genders* that used to exist and still do under patriarchal conditions and that became the subject matter of a new political discourse in the era of transition, and further, with respect to labour market and political participation and position as well as social integration, we can speak of a shared female (or male) fate only to a limited extent (see in Váradi; Timár, Chapters 17 and 18).

Included in this book, analyses of changes in social agents and relations, common in transition eras and following the above three trends, focus on social integration and its spatial ramifications. Of the latter, increasing polarisation, the extent of which depends on settlement hierarchy and the level regional economic development, and the emergence of social segregation are of importance. In addition to the social factors, outlined in Part 3, that limit subsidiarity in the operation of the social agents that play a role in shaping spatial processes, knowing the rules of the game called democracy, accepting illegal solutions, attitude to co-operation and alliance and other factors all point to the same thing: although, with economic and political transition over, the new structures of a parliamentary democracy (representing a return to the status quo in the 1940s) have also evolved in the society, state socialist routine and, in certain areas, even the vestiges of feudalism are still strongly reflected in the way it works. The mind and particularly value systems and the attitudes based on them will take longer to transform. A persistent and interacting co-existence of the characteristics of socialism and capitalism, albeit to an extent that varies from one region to the next, cannot be ruled out.

Changing Places, Spaces and Spatial Relations

One of the most spectacular spatial outcomes of transition in the post-socialist Hungary is that the most marked spatial inequalities that evolved, mainly between rural and urban communities, along the settlement hierarchy in the socialist era were surpassed by regional ones in the 1990s. It is no coincidence that the issue of *geographical scale* is an important aspect in the chapters devoted to the production of space and spatial inequalities in the era of transition.

- Focusing on employment, comprehensive quantitative studies by Bihari and Kovács (Chapter 21) provide unambiguous evidence that ‘a *slide*’ stretching in a North–Southerly and West–Easterly direction evolved in Hungary at the turn of the millennium along which inner and outer peripheries in the counties in the North East, East and Southern Transdanubia move increasingly farther down. (This is further corroborated by Csatári’s research on rural micro-regions in Chapter 27.) ‘*Slopes*’ leading from Budapest via cities and towns to small villages still exist. (It is true that while it was mainly shaped by infrastructure in the socialist era, today it is differing income opportunities that shape it; see Beluszky and Győri, Chapter 22.)

- *The former hierarchy of the urban network* has become fossilised. Regional centres, favoured by central decisions in the socialist era, now relying on their competitive edge, a feature so important under the current market conditions, have preserved their leading role. As regards their innovation potential, their role even gained in importance (see in Beluszky and Győri; Rechnitzer, Csizmadia and Grosz, Chapters 22 and 23). Beluszky and Győri arrive at the conclusion that the urban network is a slow response system and, in respect of changes in the settlement hierarchy, still in a state of transition. In addition to inequalities along the hierarchy, those at a regional scale also divided the urban system. This is also the conclusion that research on innovation potential such as the spread of the global economy offers (see in Rechnitzer, Csizmadia and Grosz; Molnár and Szépvölgyi, Chapters 23 and 24). According to Rechnitzer, Csizmadia and Grosz, innovation potential can be considered as favourable in a mere 8% of the urban network; as regards the Northern and Eastern regions, in addition to disproportionate underdevelopment, there are hardly any towns capable of convergence.
- We face a similar situation at *the rural scale*. The switchover to the market economy, economic restructuring, accelerating restratification and democratisation in local communities all distanced small villages from the larger components of the settlement network. By contrast, differences in the local conditions for privatisation and economic restructuring, a new phase of urbanisation and the flight of the urban poor to villages led to significant differentiation in the rural settlement stock (see in G.Fekete, Chapter 28).
- An increasingly important role of *localities* in the rise of spatial differences and inequalities is a characteristic where transition differs from socialism. The increased importance of unique local natural, economic, social and cultural potential (see Beluszky and Győri; Rechnitzer, Csizmadia and Grosz; G.Fekete, Chapters 22, 23 and 28), the selection of a strategy for economic transition that varied from one settlement to the next (see in Szirmai and Baráth, Chapter 25) and different local responses to global challenges (see the stories of 3 different cities by Molnár and Szépvölgyi, Chapter 24) provided a better-than-earlier chance for settlements to follow a development path of their own.
- However, settlements cannot be treated as homogeneous social space even under new social conditions. The less so, as social differences and inequalities *within settlements* have deepened over the past decade and a half, as attested by an analysis of Budapest by Szirmai and Baráth (Chapter 25). Examining the winners and losers of urban competition in Hungarian cities thus polarised, we may rightly ask a question raised in West Europe, namely ‘Whose success is the success of a city?’ (Jensen-Butler 1997).

In addition to spatial inequalities representing different weight and changing in a different manner at different geographical scales, *special places and spatial forms* in the post-socialist transition are also of importance. Of them, three are discussed, with a varying degree of detailedness, in this book.

- *Budapest Metropolitan Area*. One of the underlying reasons for its inclusion is that it represents an unparalleled path of transition from the power centre of a

command economy into a metropolis that is part of a global urban network, while adding the concentration of foreign capital to its former economic and cultural weight (see the papers cited in the section on the economy). And even more importantly because the capital city and its suburban environs have become an intermediary between the West and East and a 'test field' for a number of trends feeding through from the West. This is where certain mechanisms are put to 'test', irrespective of whether they can be adopted elsewhere in the country (see the findings on shopping centres, Nagy, E.; Szirmai and Baráth, Chapters 10 and 25; and on cultural investments, Keresztély, Chapter 26).

- At the other end of the settlement hierarchy, '*tanya*' communities and '*socialist villages*' form a special type of communities. With state farms and state co-operatives closed down, i.e. with their economic, social and cultural centre gone in the era of transition, they have lost their bearings and are among the losers of transition (see in Csatóri, Chapter 27).
- Having turned, almost overnight, from neighbouring countries into receptacles of a free flow of diverse impacts and placed in the spotlight by regional policies with completely new fundamentals, *border regions* are one of the main priorities in this book. Due to their geopolitical location, transborder networks taking shape in the era of transition and radical changes in their spatial relations, they have become unique places of 'new spatial organisations of economy', i.e. special spatial formations of the era (see in Enyedi, Chapter 1). New types of economic, social and cultural transborder co-operation along the borders, opened as a result of the regime change and EU accession, have become the primary local resources of spatial development. Co-operation in nature and environmental protection is a fundamental condition for sustainable development. As members of Euroregions in the making, border regions were offered the opportunity for integration into European regionalisation, leaving behind marginality (see in Hardi; Baranyi, Balesók and Dancs; Mezei; Fodor; Nagy, I. Chapters 29–33). Nevertheless, the fact remains that rural micro-regions along the border in the large regions of Southern Trans-Danubia and Eastern Hungary form a contiguous lagging social periphery (see in Csatóri, Chapter 27).

Finally, outlined in a sub-section on social relationships, sharp social conflicts in the post-socialist transition have left their imprint on space. Furthermore, there are also *social tensions* embodied in spatial processes or generated by them, including settlements undergoing ghettoisation and segregation that has taken on regional proportions (see in Jász and Szoboszlai; Váradi; Bihari and Kovács; G.Fekete; Chapters 16, 17, 21 and 28). Further tensions include mechanisms and trends that feed through from advanced capitalist countries with a time lag and are adopted immediately, no matter their deficiencies or the risks that they pose. (For a detailed treatment of the issues of urban development through certain cultural investments, see Keresztély, Chapter 26.) Finally, a typical issue of transition is that social and spatial conflicts are likely to be more persistent here than in established parliamentary democracies. The reason for this is that currently there are no social groups, organisations or movements in Hungary that can tackle social and spatial

tensions and advocate for losers (see in Szirmai and Baráth; Keresztély; Csatári, Chapters 25–27). The findings summed up in this preface suggest that, even if there does exist spatial transition, it is far from being over in Hungary.

Theoretical Frameworks – Concluding Remarks

Can we, after all, provide a theoretical explanation for the existence/nature of post-socialist transition of a special kind? Doing so, i.e. defining a kind of space transition faces at least three challenges.

(i) The formulation of a theory is not easy, as the majority of the papers in this book, similarly to the overwhelming majority of the regional sciences-related and geographical research in Hungary and East Central Europe, have a *descriptive purpose* to outline the characteristics of the spatial processes and forms in the post-socialist transition. This is all the more understandable as we are witnessing a historically unprecedented process, where all the issues that were hushed up before the political-ideological regime change are now openly discussed. In addition to research aimed at understanding processes and phenomena, their mapping alone is highly instructive, given the special nature of this period.

(ii) Nor is it easy to interpret trends in this period conceptually, as there was already a scarcity of *explanatory theories on spatial processes in the socialist era*. What we can rely on is two contrasting theories, which evolved in discussions involving Hungarian researchers. Enyedi (1984, 1996) proposes that urbanisation in East Central European countries was not a special ‘socialist’ model of modern urbanisation. Rather, it replicated stages of the global process of urban development. By contrast, Szelényi stressed the qualitatively different nature of state socialist urbanisation and cities (see in Konrád and Szelényi 1977; Szelényi 1996). From Szelényi’s standpoint, however, asking the question of what happened as a result of post-communism cannot be avoided. According to an assessment in the mid-1990s ‘many features of socialist urban development are now decaying rapidly, and those that still survive are increasingly in contradiction with the emergent socio-economic reality of the region. ... the greater the role of markets (the private sector) in these societies, the less different their cities will be from those in the West...’ (Szelényi 1996: 288). Now at the time of the current stock-taking after the turn of the millennium and analysing spatial forms and processes in a broader sense we may go further along this logic and say that now not only political, but also economic, transition is over. It follows then that the rules governing spatial processes are no longer different from those under capitalist conditions. An important aspect of ‘emergent social reality of the region’ is, however, that social transition is still very much underway. If, however, we decide to adopt Lefebvre’s (1991) ideas, we can paraphrase the above question to go as follows: Is it a *version* of the ‘capitalist’ production of space or is it a distinctive model of *the ‘post-socialist’ production of space* that we are witnessing in Hungary? In order for an answer to be provided, we would also need, among other things, studies adopting a cultural geographic approach and a comparison of the characteristics identified in this book with those in other ECEC’s. This is all the more important as it may well be the case that either

we are talking of a *Hungarian variant* here, or there are numerous lessons of the phenomena, trends and their causes outlined that do not apply to the East Central European region.

(iii) Finally, the applicability of the *theories to grasp the Western types of capitalism* raises further questions. Most contributors to this book seem to be particularly interested in spatial inequalities. In order to interpret them, some adopt the core-periphery concept. This is what the model of potential is premised on and by means of which Nagy (Hayes and Fortheringham in Chapter 8) strives to identify dependence on a national economic power centre. As he also points out, one of the problems, which is mainly of a methodological nature, is that the model is confined to the national economy and is unsuitable for measuring transborder impulses from across the border. The reason why, adopting well-known Western core-periphery models with dependence as their primary concern, it is difficult to identify the characteristics of the post-socialist space that are different from those of their counterparts in the West is that dependence is different. Szalai (2004: 136) proposes that the following characterises the ‘the quasi-peripheries’ during the regime changes in the Eastern European region:

‘One is that, as a consequence of the heavy dependence of the economies in these societies on the global market, the local political and cultural elite is too weak, compared to those in core countries, to fend off the offensive of global capital – which weakens their sovereignty – from above. Another is that, due to social traditions in East Europe, grassroots movements, which could restrain the dominance of global capital on a civil society side, are also weak.’

Moreover, the extent of pauperisation also varies within the East Central European region depending on the strength of the political and political economy elite in the individual countries to resist a neo-liberal turn.

Striving to identify the causes of a shift in spatial inequalities and the nature of such a shift, most contributors to this book put forward explanations that rely on political economy (often structuralist) approaches. Ultimately, these explanations, even if they cover a wide variety of issues, including the crisis of a structure that evolved in the socialist era (see in Beluszky and Györi, Chapter 22), economic restructuring (see in Rechnitzer, Csizmadia and Grosz, Chapter 23), the defining role of greenfield investment rather than privatisation (see in Nagy, G., Chapter 8) as well as investor interest and profit considerations (see in Bihari and Kovács, Chapter 21), take into account income and efficiency considerations. Complemented with empirical evidence, these explanations lead us to *the Western neo-Marxist theory of uneven development* (Smith 1990). Some of the contributors would even be willing to agree that uneven development is the geography of capital accumulation, and underdevelopment is actively produced. However, the role of the state (and only the state) as spatial equalizer that many papers included in this book assign to it and find realistic contradicts this, or rather, that tenet of the theory according to which uneven development is endemic to capitalism. It may well be the case that such an overemphasis on the role of the state is in itself a post-socialist determination. It is a

fact that, as regards the relationship of the state and the market, it was a contentious issue of sociology in Hungary as early as the 1980s whether market mechanisms offset inequalities generated by the state in the socialist era (Szelényi and Manchin 1986), or they add their own, benefiting the same social strata (Ferge 1986). There seemed to be consensus that under capitalist circumstances (in welfare states, at least) redistribution was expected to offset the inequalities attributable to the market. However, as calculations (see in Kiss 2001; Nemes Nagy 2001; Nagy, G., Chapter 8) included in analyses of the situation in the post-regime change Hungary reveal that the central government is not only unable to tackle the issue of regional inequalities efficiently, but it also contributes to them, which alone is not a characteristic of post-socialist transition, of course. However, it is equally very difficult to define the extent to which the survival of certain components of socialist redistribution, a cosy relationship between the political and economic elite, currently undergoing transformation, and the exit of the state due to a neo-liberal turn are to be blamed for this.

Due to the above problems of theoretical approaches, it is difficult to offer a definitive answer to the question whether the spatial phenomena and trends that we create and experience daily are permanent or transient. It is equally difficult to decide which are transient and which are not. In order for answers to be provided, comparative international research must be conducted. Many claim that it may be even more important that relevant social issues, also touched upon by some of the papers with *the human agent* as their main concern in this book, should be identified and addressed. Such issues include, for instance, how the various, rather differentiated, social groups can internalise a sea of spatial disadvantages and inequalities in life conditions that have inundated them overnight, what strategies they adopt in their adjustment to new conditions and whether there exist any counter-movements that reclaim the spaces of everyday life (for certain components, see in Váradi; Timár; Szirmai and Baráth, Chapters 17, 18 and 25).

It goes without saying that, representing various approaches and value systems of social theories, we contributors to the book also form a differentiated group with respect to, if nothing else, our attitudes to the various issues. This obvious diversity of opinions is not necessarily a post-modern phenomenon in the way it is known in Western societies. Rather, it may be attributable to the very essence of post-socialism. We should bear in mind that a heavy accent on a regional policy adopted by the central government may be interlocked with criticism levelled at advancing neo-liberalism, socialisation in the socialist era or even the lack of such social movements that could 'come handy' in the mitigation of social and spatial inequalities.

In order to be able to take stock of the above, it is imperative to have a discourse in which we can clear up our own approaches and measure them against each other, and which allows for the possibility that we may, in international discussions and relying on international experience, further hone the answers to the questions asked in this book and ask a large number of new ones. This is, indeed, why this book has been compiled. A further solemn cause is the 20th anniversary of the foundation of the Centre for Regional Studies. And far from incidentally, the year of its

publication, i.e. 2005, marks the 75th birthday of György Enyedi, founding father of the Centre.

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PART I

Regional Policy and Regionalisation in a New Hungary

Chapter 1

Processes of Regional Development in Post-socialist Hungary

György Enyedi

Introduction

A *regional process* is defined as a sustained, short- or long term, economic, societal, cultural or demographic series of occurrences with a specific spatial impact or spatial consequences. These occurrences are brought about by the successive decisions of individuals, households, enterprises, institutions, local and national governments and international organisations. These decisions are seldom motivated by concern with regional development; nevertheless, taken together, they influence largely the development or the quality of life of a given region. By its very nature, the economic or societal decisions always manifest themselves in space in an unequal form. Regional disparities are evident, because of the uneven geographical distribution of development resources. These disparities mean that people living in less developed regions may suffer serious handicaps in their quality of life, use of public services, social mobility etc.

The political demand for governmental intervention to moderate the effect of spatial disparities with discriminative consequences has been voiced, in the name of social solidarity, mostly in Europe, since the early 20th century. *Regional policy* can be identified as this kind of corrective government intervention into spontaneous regional processes aimed at reducing spatial disparities (Enyedi 1996; Horváth 1998).

After 1990, i.e. after the switch from state socialist system to the democratic political system, three major changes have strongly influenced the regional development in Hungary:

- transition from a dominantly state owned and planned economy to a privatised market economy;
- the structural and technological transformation of economy: the decline of traditional industrial sectors and the rise of new sectors (knowledge based industry, business services, cultural economy). In Western Europe this transformation started in the 1970's, in post-socialist countries it began in the

1990s. Consequently, the shorter time period for transformation had hard social consequences.

- an increased pressure to adapt to the consequences of globalisation and to external economic influences.

Consequences of the post-socialist transition and the influences of global changes have coincided with the fundamental transformation of conditions for regional development during the last 15 years. In this paper, I am going to discuss five aspects of the changes that the main factors of regional development processes have undergone. These aspects are the following:

1. Growing regional inequalities
2. International influences,
3. New factors of the location of the economy,
4. New significance of local conditions, and
5. New spatial organizational forms.

Growing Regional Inequalities

Rapid economic restructuring has changed the extent and the nature of the spatial inequalities. The economic base of the state socialist regional system (traditional industry) collapsed in the early 1990's. Between 1990 and 1993, GDP dropped by 20%, and the output of agriculture by 30 per cent. One third of the active population (no less than 1,5 million in all) found themselves without employment. These losses were comparable to the economic losses caused by the Second World War – and the recovery took longer (the 1989 per capita GDP level was reached again only in 2000). It is now possible to state that the destruction wrought by the transitional crisis was, in Schumpeter's term, a creative destruction. The economy was successfully rebuilt, but is now structured very differently; since it operates in a new way, its location has changed, too. Hungary now has a new map of economic geography.

It is fashionable to speak or write of the country being split: the East/West divide or the Budapest/countryside divide is a regular topic for newspapers and politicians. A careful analysis of facts gives a more diversified picture¹.

Regional disparities (measured by per capita GDP and the Human Development Index) had first increased significantly, as a logical outcome of the transformational crisis of the early 1990s, but began to stabilize after 1996. There is even evidence of decreasing regional disparities after this time. In actuality, regional inequalities, measured in per capita GDP on a county level, have not changed much. We have no exact data from the state-socialist period. The Central Planning Office, in 1978, estimated that the leading county's per capita GDP was 2,5 times higher than that of the least developed county. More than twenty years later, the ratio is practically the same.² In economic performance, the most significant regional change has been the outstanding success of the Budapest Metropolitan Region, producing a *growing gap* between the capital city and the rest of the country.

Regional inequalities in Hungary are large enough to require government intervention, but they are not especially serious by international standards. We can

find similar differences in Austria, Belgium, Italy or Poland. The dominant economic role of the capital city is also frequent in smaller countries (see Greece or Portugal).

While there may have been little change in economic inequalities, the general public was shocked by the rapidly increasing gap in living standards between regions. This reaction may be explained by two factors: first, that the public had become accustomed to social egalitarianism and, secondly, that these inequalities were growing in a declining economy and consequently this meant poverty and increasing unemployment. In the state-socialist system, poor economic performance scarcely made it felt in living conditions, due to an egalitarian budget redistribution in a state owned economy. In 1978, in the least developed county, there was full employment and a lower than average family income. In 2000, in the same county, poor economic performance had resulted in a 15% unemployment rate, and a life under the poverty line for 35 to 40 per cent of the population. Regional inequalities became a hot issue because they were growing in the most sensitive fields of an individual's life.

International Influences

Hungary had a small, *open economy* during the communist period. Hungarian prosperity had depended on, a great extent, to the export performances, and to the economic successes achieved in foreign markets. Nevertheless, international influences had a limited impact on regional development. Half of the foreign trade in the 1980's (and even more during the 1960's and 1970's) was directed to other communist countries, where market mechanisms were very limited, prices were set in a rather arbitrary way, and sudden market fluctuations were excluded by long term trade agreements among communist countries. The other half of the foreign trade was performed with – mostly European – market economies, where Hungarian enterprises had to compete with their Western partners. This dual economic environment pushed enterprises to behave differently in Western and Eastern (socialist) markets: they tried to sell competitive products and to buy modern technology on the Western markets and to sell outmoded goods and to buy raw materials in socialist countries. This made socialist economies more and more vulnerable and finally led to their collapse at the turn of the 1980's and 1990's. Exchange of goods was organized mostly by state owned foreign trade enterprises thus international relations influenced regional development but in an indirect way.

Since the reintegration of the Hungarian economy into the global market, international influences shape regional development to a great extent. Three levels of these influences can be distinguished (Enyedi 2000): the global, the European and the local (border zone) level.

As far as the *global* level is concerned: growth cycles of the world economy and business policies of transnational companies (TNC's) affect individual regions of the country in different ways. Developed regions react more sensitively to such fluctuations. This is because they are better integrated into the world economy and because most transnational companies' units are located in these regions (TNC's

provide over 70 per cent of the export value). These processes are directed externally, Hungarian actors may cushion the consequences of sudden or extreme changes. Globalisation processes are disadvantageous for small economies in the sense that these economies are strongly dependent on the control centres of the world economy. Meanwhile, the same processes are advantageous as the relative size of domestic markets has become less important and the difference between internal and external markets (esp. in Europe) is expected to disappear (Goto and Barker 1999).

European influences have many sided and strong effects, especially as Hungary has become a member of the European Union. The EU is the most important external market of the Hungarian economy (with a 70% share of the export). There is a possibility that traditional Hungarian economic ties towards South Eastern and Eastern Europe will be strengthening in the future. It is very important, that regional development policies have been adjusted to EU regulations. EU funds could directly contribute to shaping regional development in Hungary. The most important changes are as follows: a/ regional development funds were insignificant so far, thus they couldn't actually influence regional development; in the future these funds will expand substantially; b/ regional development funds were extremely concentrated in Northeastern Hungary, but within the two less developed region they were distributed in a haphazard way, partly in a form of welfare subsidies. Now, major projects came into the foreground, and, according to EU standards, all of the Hungarian regions – except the Budapest Metropolitan Region – are entitled to EU funds. We can thus expect that Western Hungarian regions are better prepared to apply regional development funds, they will be more successful in project financing, consequently regional inequalities may grow within Hungary whereas the gap between Western Hungary and Eastern Austria will be diminished.

Hungary – as an EU member – can shape more actively the European influences, than the global ones.

Transborder influences are clearly the results of the post-communist transition. During the communist period, borders were a barrier to economic relations (and to movement of individuals), consequently the border zones became marginal and were ignored by regional policy as well.

The political opening of the borders and the improvement of the transborder infrastructure have made a fundamental impact on regional and urban development. Small in area (93,000 km²), Hungary has seven neighbours³ (Austria, Slovakia, Ukraine, Romania, Serbia Montenegro, Croatia, Slovenia). Four of these countries became independent recently, in the early 1990s, after the dissolution of former federal states. In effect this means that transborder economic or cultural ties involve seven different legal systems, seven traditions, seven different levels of economic structure and development. The EU membership of three neighbours means another differentiating element. Fourteen out of Hungary's nineteen counties have an international border; there is no Hungarian settlement farther than 100 km from an international border. It is no exaggeration to say that the whole territory of Hungary (like that of many small European states) could be defined as a border zone. Various

influences from neighbouring countries contribute to the diversity of the Hungarian economy's spatial structure.

This situation makes the possibility of development of cross-border (international) regions very promising. These follow the example of Euroregions and they have been partly supported by the EU Cross Border Cooperation (CBC) program. Not only internal regional differences but also differences on both sides of the border zones should be taken into consideration while formulating regional policy goals. Cross border cooperation may be facilitated by the presence of some 3 million ethnic Hungarians in the neighbouring countries.

New Forms and Elements of the Location of the Economy

Rapid economic restructuring has introduced new conditions and requirements for the location of the economy, which have had a fundamental impact on factors of economic development. Former developed industrial regions collapsed almost overnight, and we have witnessed the spectacular re-emergence of the traditional Budapest-Vienna axis as the innovative locomotive of the Hungarian economy.

The location of the new economy has become extremely *flexible*. The services sector, in a broad sense, has begun to dominate the economy. Production sectors with a fixed location (requiring transport, water, energy, large workforce, raw materials) have been increasingly marginalized. Even if it is not true that economy has become 'ubiquitous' (which is what several authors claim), a great number of settlements are possible candidates for a new company's location, in and outside of a given country (Krugman 1995). Settlements are in competition for getting new investments or locating new institutions. The attractiveness of a given location includes geographical position (access to dynamic regions or urban zones), level of infrastructure, the quality of natural, socio-cultural and built environment, the quality and – to a lesser extent – the price of labour. High-level business services, economic decision making centres, R&D activities as well as knowledge based industries tend to be concentrated in large cities – hence comes the present extraordinary dynamism of most of the metropolitan regions. In developed countries, location advantages of large cities re-create again and again regional inequalities as well.

Location improves the competitiveness of companies. Most former factors of competitiveness have disappeared due to structural economic changes. Nevertheless, the quality of the workforce still remains to some extent a local variable. Competitiveness depends on *knowledge creation*. This is not even such a novelty: "In two countries which have the same population size, and cultivate the same area and quality of land, products will be priced higher in the one with better expertise and machines to produce exportable goods", wrote Ricardo in 1817 (quoted in Maskell, Eskelinen *et al* 1998, p. 23–24) What *is* new is the rapidly growing importance of the knowledge based economy. The relative potential to create, import and spread innovation is responsible for regional differentiation especially in developed countries. The main elements of competitiveness are knowledge and the ability to learn (both of which tend to be rooted in local traditions). A workforce

capable to maintain a knowledge based economy poses special demands with regard to the local urban environment; the quality of the settlement also appears among the factors of location.

Local Conditions

Whereas traditional local resources have lost their former significance in competitiveness, *rare local capabilities*, based on special knowledge, which is difficult to imitate elsewhere, have grown in value. This knowledge often enables the production of unique, special quality goods. These products can usually claim good market positions.

Besides special knowledge, natural resources are also to be included among the inimitable local conditions especially those which increase the aesthetic value of the environment or play a role in the leisure industry and health tourism. I will mention here an always neglected element: the institutional environment of a given region (organizations, practices, customs, traditions associated with capital supply, land, labour, markets). This environment is a product of a long historical development thus it may constitute a lasting advantage since they are difficult to copy elsewhere.

Evidently, local conditions are classified as valuable in a knowledge-based economy as long as they can contribute to the creative-innovative potential of the local economy and enable local economic actors to use this knowledge ahead of other competitors. Such knowledge may include not only high-tech expertise but also 'handicraft' skills to produce high-quality goods in traditional industries and agriculture (Csefalvay 1999). When capable of putting special quality consumer goods on a demanding and affluent market even traditional economic sectors can remain competitive (provided they employ the most up-to-date methods for organizing production and marketing). This type of knowledge takes generations to emerge, it's difficult to imitate it elsewhere, and thus it may represent a significant competitive advantage. For small and economically modest countries, traditional sectors are more promising in regional development, than the extremely capital intensive and rapidly changing high-tech sectors.

New Spatial Organizational Forms

The changes listed have created *new spatial organisational forms* of economy and society. I intend to explain four different aspects of these changes.

(i) *There are no economically homogenous regions.* There are a lot of simplifications about backward Eastern and developed Western Hungary; one can read frequently of a 'country split in two'. No doubt, there are larger and more populous rural areas in Eastern, than in Western Hungary, but this simplification doesn't help to target areas for government subsidies or development schemes. Spatial disparities display a complex structure in Hungary, and can be best captured within a micro-regional framework. Backward areas are to be found even in the highly developed Budapest metropolitan region (therefore they are excluded from

aid programs), and there are dynamic urban regions within the less developed Northeastern Hungary. Regional development schemes should be based on micro-regions, but these, non-official regions are not easily dealt with by public administration. Budget redistribution is executed on the second tier of public administration, i.e. on county level; therefore it is not always clearly focussed on the backward areas.

(ii) *The location of modern economy can mainly be described through spatial networks.* A network of global cities controls the world economy. The decision-making centres of transnational companies and international financial organizations typically settle in these cities. Earlier industrial regions have been replaced by subcontracting networks of large manufacturing companies that are spread over extensive areas. Decision centres claim special positions within settlement or firm networks, but otherwise networked cities are horizontally organized without forming a vertical hierarchy. The success of a given city depends on the functions it can perform within the *networks*; the level and the performance of the attraction zones are less important than before.

One of the crucial questions of the regional policy today is this: what will happen with the economies and the population of regions and settlements falling out of socio-economic networks? Will they be able to re-integrate into the network, and if yes, what functions can they assume there? National regional policies have, therefore, a new priority besides the former ones: to reintegrate settlements that have fallen out from economic networks.

(iii) *New spatial structure of the Hungarian economy.* The above-mentioned changes can also be observed in the transformation of the Hungarian economy's spatial structure. One can distinguish three levels of spatial structure (beside the traditional Budapest/countryside or East/West dichotomies). The *first* level constituted by the penetration of the global network into the Hungarian spatial system. Budapest has an exceptional importance being directly connected to the European metropolitan network. The Hungarian capital is an important gateway city, receiving (Western) European and global influences and innovations conveying them towards the rest of the country and towards South Eastern Europe. The Budapest-Balaton and the Budapest-Vienna axes are directly linked up with international networks through the business relations of transnational companies.

Smaller regional networks form the *second* level. Some of these are located within the country; many of them form transborder networks with neighbouring countries within the Carpathian basin. These networks are based on the market and subcontracting relations of small- and medium sized enterprises. It is promising, that these networks are widespread in the less developed Eastern and Southern Hungary as well, where Hungarian capital plays an initiating role. Large towns in the countryside form the nodes of such networks.

The *third* level is represented by backward rural areas, which are located between the axes of dynamic economic activity. These areas are in the focus of regional policies, most of the budget subsidies are located there. These areas are the most sizeable in Northeastern, Southeastern and Southwestern Hungary. The success of government interventions is, however, questionable. Subsidies are very limited

compared to the need of improving the poor infrastructure. Moreover, the quality of human resources (age, education, qualification) hardly provides an adequate basis for economic development. This is why dynamic urban centres in Northern and Eastern Hungary function as enclaves with little impact on their attraction zones.

Hungary's integration with the European Union may stimulate the government to reconsider the aim and target areas of the regional policy (or at least harmonize the general aims of economic policy and the priorities of regional development policy). The main question is, should the government decide to diminish regional disparities *within* the country or rather concentrate on reducing the gap between Hungary and more developed European nations? This latter aim would be better (more efficiently) served by allocating more of the budget to development projects in Western Hungary that are listed as backward areas in comparison to the EU. For the successful development of the Budapest Metropolitan Region, and its competitive performance within the European Metropolitan System, government intervention is a top priority for national development.

(iv) *Changes in the urban system.* Regional inequalities are closely related to the competitiveness and economic performances of the cities located within the regions. At the present stage of global economic development, large urban regions are taking over the role of the former core or leading regions. Although economic restructuring resulted in footloose locational behaviour, economic activity did not become geographically dispersed. Knowledge-based industries and high level business services tended to be clustered in urban areas where they found high-quality manpower, a range of business support services, research facilities, opportunities for interactive learning, etc.

Post-socialist transition placed the cities into a competitive situation and subjected them to the shock of fast economic restructuring. After 15 years of transition period, we can clearly distinguish between the *winners and losers*. The main types of trajectories are as follows:

- The *Budapest Metropolitan Area* has produced an outstanding performance, with a rapidly modernizing economy, a strong concentration of foreign direct investments and of high standard service facilities.
- Many *provincial cities* took only a few years to adapt and recover from the transition crisis. The larger regional centres were first, followed by smaller county seats in becoming dynamic nodes of the urban system. Competitiveness has been primarily supported by the quality of the local workforce, by the business climate of the given city and by its geographical location (e.g. closeness to Budapest or the Austrian border, distance from the unevenly developed motorway system etc). The geographical distribution of these centres is not especially uneven; they are more frequently found in Western Hungary but they are present and developing in Northeastern Hungary, too. More than one third of the urban population outside Budapest lives in these cities.
- *Medium sized and small cities* were in a deep crisis at the beginning of the 1990s. Two thirds of them were classified as “ marginalizing “ at that time. That was when state owned industry collapsed, collective farms were dismantled and privatisation and foreign direct investments had just begun . Weakened functions

of production were not yet replaced by innovative elements. Within a few years, many of these cities emerged successfully from the crisis, primarily because of industrial restructuring. They advanced at a slower pace towards a service economy, except in the case of special (health, education and tourism) functions. This city group is still in transition, the final outcome is still not clear. The emerging local centres are clustered West of the Tisza River, in Central Hungary and in Northern Transdanubia.

- The *marginal group* became much smaller by the beginning of the 21st century. In 2001 (the last population census) there were 58 cities in this group (more than one third of all urban settlements). Forty of them were in the marginal group in 1990 as well, while the remaining 18 were granted legal city status during the 1990s. Most of them are located in Northeast Hungary, primarily in the rural areas of the Great Plain and in the Northern former mining regions. Marginality will presumably continue to be a problem for these cities for a long time to come. Marginal cities are frequently found in the underdeveloped, poverty and unemployment- regions. The backwardness – and the difficulties for the development – of this region come partly from the poor integration of the urban network: larger, developed cities of the region are unable to exercise a dynamic effect upon their rural/small city environment.
- *Rural settlements and rural areas* were clear losers following the post-socialist transition. In the second half of the 20th century, the urban/rural dichotomy has been replaced by the urban/rural continuum in most of the European countries. There was a levelling process in social structure and living conditions between rural and urban settlements. This process remained unfinished and distorted in Eastern Europe. There were important improvements in public services, housing and employment, but a serious gap remained in infrastructure and commerce. Traditional rural life (e.g. a strong attachment to agriculture, partial food self-sufficiency) remained important. It meant also certain self-defence against the collectivism of the communist system.

In the transition period, the rural economy was hit most seriously by the transition crisis. Rural unemployment became especially high and many rural families live on welfare still today. There are many reasons for this, from the drop in rural employment, loss of the huge former Soviet food market, to questionable ways of privatising land and a lack of a comprehensive agricultural policy. Nevertheless, the conclusion is clear: the presence of undeveloped rural regions has contributed to a large extent to the geography of regional inequalities in Hungary.

Conclusion

The processes of Hungarian regional development have been to a large extent shaped by international influences. The impact of these influences may be modified to a small extent by national regional policy.

Due to technological development and rapid modernization of economic structure, the location of economic activities has become flexible. Distance has lost much of its former significance, but the quality of labour and the attractiveness of

the settlement environment have still remained important geographical factors of location. The main elements of the knowledge-based economy (knowledge and the ability to learn) are mostly rooted in regional and urban traditions.

Globalisation has changed the role of local conditions as well. There are more and more ubiquitous factors including the availability of infrastructure and qualified labour. On the other hand, unique conditions based on local capabilities, which are difficult to copy elsewhere, have grown in competitive value. These capabilities need not be related to high-tech industries. In fact, high-standard activities in traditional economic sectors can constitute greater competitive advantages for small countries than extremely capital intensive and quickly changing high-tech sectors.

These changes led to the emergence of new spatial forms and to the re-evaluation of the traditional regional policies. National regional development policies have to intervene in two important areas:

1. improving the competitiveness of settlements and regions integrated into the global network,
2. re-integrating settlements that do not participate in networks and promoting the development of local economies.

NOTES

¹ See Figure 21.2 in Bihari and Kovács (2005).

² Thus the inequalities in economic performance have remained the same. The leading counties were Komárom (in 1978) and the neighboring Győr-Moson-Sopron (2000) both located along the Budapest-Vienna motorway. The least developed in both years was Szabolcs-Szatmár, in Northeast Hungary.

³ In Europe, only Germany has more neighboring countries than Hungary.

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Chapter 2

Hungary's Changing Geopolitical Situation During the Transitional Period

Zoltán Hajdú

Introduction

Geographical position determines a country's location on the globe (absolute geographical position) as well as its location relative to other countries (relative geographical position). Geopolitical position stands for a country's place in international power relations and politics. This is a historically variable category with relative content and value. The assessment of countries in terms of their position has gone through considerable changes in both domestic and international geographic theory.

Changes in geopolitical position are influenced by global, continental, regional and domestic developments. In different historical periods, different factors may prove decisive. In the twentieth century, forces of continental and global scope began to dominate in determining the geopolitical position of practically every country (Rourke 1991; Kennedy 1992; Romsics 1997; Bernek 2002).

In this century, Hungary's geopolitical position underwent a number of fundamental transformations. Its state boundaries were radically altered several times. It was not only the country's population and territory, but also its status in its regional environment, and its position as a regional and continental power that was subject to numerous changes (Rónai 1945, 1947; Szűrös 1985, 1987; Hajdú 1995/a, 1995/b, 1998). After World War II, Hungary gradually became part of the geopolitical structures of a divided world and a divided Europe. In 1956, a considerable part of Hungarian society questioned this position as well as the internal structure that it entailed. Ultimately, however, international factors and brute military force restored the 'the old order of things' (Kovács 1989; Fehér and Heller 1990; Diószegi 1991; Fischer 1992, 1996; Borsody 1998).

From 1988 onwards, the legitimacy of participating in what was referred to as the 'peace camp' was gradually questioned domestically. Subsequently, Hungary broke

away from its former alliance which itself changed fundamentally and then fell apart. By summer 1991, Hungary regained its full sovereignty. This turnaround is to be attributed to radical changes in external conditions and a favourable interplay of internal factors.

After 1991, Hungary became part of the 'grey zone' formed between a stable West and a crisis-ridden 'East'. Some of the former socialist countries and republics of the former Soviet Union constituted the latter. It was Hungary's own decision to quit this zone and become a member of NATO in 1999 and then join the European Union in May 2004 (Hankiss 1989; Kéri 1992; Borsody 1998).

The primary aim of this essay is to show that the regime change after 1989 fundamentally affected both the country's external and internal circumstances, and that internal and external developments were intimately linked with one another. The country's geopolitical position has changed significantly during this 15-year period.

Geopolitical Position as a Historically Variable and Relative Category

Naturally, every country views the world, its continent and its neighbours from the perspective of its absolute geographical position. In Hungarian historical and political thought, we also find a distinctly Hungarian world-view in which Hungary occupies a central location. Even the thought of a Budapest-centred world map has occurred to some, but this idea has never seriously taken shape neither in public discourse nor in education, which is dominated by a Europe-centred world-view (Czirbusz 1919; Bozóki 1998; Csizmadia 1998; Kalmár n.d.).

Hungary's geopolitical position is a relative category that has always had both internal and external aspects and determinations. Its internal content can be defined as the value system of political elites, and more broadly, as society's 'regional awareness', 'sense of security', 'notion of territorial community' and attitudes towards 'the legitimacy of alliances'.

Internal factors determining the assessment of geopolitical position can vary to a large extent across different groups of society. The political elite can itself be in disagreement with regard to the country's foreign policy orientation, direction and content of its alliances, and the resulting advantages or disadvantages of its geographical location. A peculiarity of Hungarian history is the discrepancy between the perception of the country's geopolitical position and its implications by political emigrants of different ideological persuasion in different periods, on the one hand, and that of the ruling political elite, on the other.

The complete lack of social consensus was particularly strongly reflected in the assessment of the 'fraternal, perpetual, and unbreakable friendship' between Hungary and Soviet Union, i.e. the evaluation of the country's alliance to the neighbouring Soviet Union. For the major part of Hungarian society, this alliance and commitment remained unacceptable but for decades this disagreement could not be expressed in any form.

The external view and content of the geopolitical position is constituted primarily by an assessment of the country's participation in regional, territorial, communal,

European, and global developments. Perceptions of neighbours as well as that of continental players can change over a fairly short period of time. In the case of Hungary, such changes did occur several times in the course of the twentieth century and they did so in a radical fashion. Hungary's changing geopolitical position can be analysed and assessed in terms of various territorial aspects (Ring 1986; Pándi 1995; Romsics 1996; Pap and Tóth 1997):

- relations to neighbouring countries
- spatio-communal perspective (Central Europe)
- functional space (Middle Europe, Grey Zone)
- continental (Europe)
- global developments.

In the twentieth century, Hungary situated itself, together with its neighbours, in European economic and power structures. Hungary and its neighbouring environment belonged to one of the most volatile regions even in comparison to the often-changing European structures themselves.

Given its frequently changing borders, self-definitions of Hungary's geographical position in the twentieth century went through several modifications: the country has been regarded alternately in the past and present as belonging to Eastern Europe, Western Europe, South-East Europe, the Balkans, Southern Europe, South-West Europe, Central Europe, Central and Eastern Europe, East-Central Europe etc., just to mention the most frequently recurring spatial positionings of the country (Beluszky 1995; Ankler 1997).

Each definition contained political elements, internal as well as external. Historically co-existent attempts at self-definition showed a lack of consensus in this respect as well.

Neighbouring countries' view of Hungary was also unfavourable. After 1920, the population, political elites, and to some extent the academia in successor states did not recognise Hungary according to its condition at the time. Instead, it was pre-1918 Hungary's size, significance, as well as the prospect of a possible revival that loomed largely in their thinking. Thus successor states did not shape their foreign policy and alliances on the basis of existing power relations during the inter-war period.

The ethnic composition of Hungary's environment remained relatively stable in the twentieth century, but the weight and significance of particular ethnic groups shifted considerably. While, for instance, Ukrainians played virtually no role in influencing developments in Hungary for decades (they themselves lived almost 'hidden' in the Soviet Union), after 1991 the Ukraine became the largest, most populated and in possession of the most significant military power among all neighbouring countries. In the transformation of this ethnic space, a supplementary role was played by voluntary and forced international migration as well as occasional differences in the differing production rates of various ethnic groups (Kocsis and Hodosi 1998).

In contrast to this relative ethnic stability, Hungary's political environment was transforming continuously and, often, fundamentally during the twentieth century. States came to life and then ceased to exist (Czechoslovakia, Yugoslavia, the Soviet

Union), new neighbours appeared and disappeared (Germany, Poland), and newly formed states appeared as Hungary's new neighbours (Slovakia, the Ukraine, Serbia-Montenegro, Croatia, Slovenia). Nor was Austria's fate in the twentieth century insignificant from a Hungarian perspective (Kissinger 1996; Lendvai 1997; Király and Romsics 1998).

In the period after 1998, Hungary's domestic development, the enduring internal crisis of the Soviet Union and its rapidly weakening position as a world power, the internal transformation of neighbouring socialist countries mutually reinforced one another and opened up the prospects of further changes in Hungary's geopolitical position (Agnew and Corbridge 1989).

Hungarian foreign policy has always had to come to terms with the implications of the country's absolute geographical position as well as the outcomes of global, continental, and regional transformations. Judging from the failures of foreign policy and a series of national tragedies in the twentieth century, one could jump to the conclusion that Hungarian foreign policy committed grave errors in almost every era and mistakenly evaluated foreseeable long-term consequences of external developments. However, this view would only be partially right. Most neighbouring countries also experienced similar tragedies in the twentieth century. We should therefore speak of regional or continental characteristics instead of individual shortcomings (such as the incompetence or incapacity of particular politicians or even perhaps that of all foreign policy makers of a given country).

Hungary's Geopolitical Position in the Divided Europe and the Soviet Alliance System at the Beginning of the Regime Change

The entire post-World War II era, including all its key events and turning points, was determined by the relationship between the United States and the Soviet Union. In this competition of superpowers, Hungary came to the forefront only during the 1956 revolution. The 'co-ordinated' foreign policy of socialist countries was primarily the expression of the aims and interests of the Soviet Union. The scope of action enjoyed by small countries was greatly reduced, although not entirely eliminated. From the end of the 1960s, Hungary began to pursue its national interests more actively and often acted as an intermediary in an effort to reduce the tensions between world systems.

The primary determinant of the country's geopolitical position was its membership in the socialist alliance system. After 1955, the largest section of the country's borders was shared with socialist countries (84.1% of the total of 2246 kms). 56.9% of this was with countries belonging to the same military alliance. Only 15.9% of Hungary's state borders were shared with Austria. Even Austria's border areas, were under Soviet occupation until the signing of the Austrian state treaty in 1955 after which Austria acquired neutral status. In terms of socialist values, this feature of the country's regional position was regarded as favourable (while the existence of common borders with Yugoslavia was viewed with a degree of ambiguity.)

Hungary became an integral part of the power and economic structure established by the Soviet Union and joined the 'socialist camp'. Somewhat strangely the first step in this process was to institute economic relations in the form of an international treaty and organisation in 1949. The Comecon was established (20 January 1949) with the purpose of promoting economic co-operation among socialist countries (Bulgaria, Czechoslovakia, Poland, Hungary, Romania and the Soviet Union).

The Warsaw Pact (1955) was primarily a military treaty, but the military potential of the smaller allies was negligible in comparison to that of the Soviet Union. For the Soviet Union, its most important function was that it gave it control over territories beyond its own borders.

The image of Hungary as the 'happiest barrack' was based on constitutive elements and determinants of both foreign policy and domestic affairs. The external conditions for this special situation were mostly based on improved relations between the two superpowers and world systems. Foreign policies pursued by the Hungarian political elite, which were motivated both by common national concerns and their very own interests, were steadily oriented towards reducing tension in international relations. This was also true during the period of détente and smaller crises. A relatively high standard of living relative to other socialist countries, controlled freedom of movement for the majority of society, and guaranteed public services were made a priority.

Among its neighbours, Hungary's relations with Austria acquired an increasingly special significance. Both parties sought to demonstrate the advantages of peaceful co-existence between different socio-economic systems. The improvement of relations was partly due to the fact that Hungary gradually came to be regarded as the socialist country in which domestic affairs were the most tolerable. The 1968 invasion of Czechoslovakia by the Soviet Union – with the assistance of the smaller allies – fit well into the logic of that bipolar world. The West in response to this event took no substantial steps.

The process of détente and European collective security endeavours perfectly suited Hungarian interests. The Helsinki Final Act of 1975 created favourable conditions for Hungarian foreign policy manoeuvres. (Paradoxically, the Helsinki Act, further worsened relations with the Romanian state. The Romanian leadership – presumably due to worsening internal economic conditions – deliberately misunderstood and misinterpreted the speech given by János Kádár in Helsinki.)

After the Soviet intervention in Afghanistan in 1979, it became more and more evident – not that leaders of smaller socialist countries would have been unaware of this before – that the Soviet elite's actions were dictated by its own geopolitical aims and values. Soviet leadership paid little attention to either the short or long term interests of its allies. Thus it was primarily the smaller socialist states that were to pay the price for the economic repercussions of the growing tension in the Soviet-American bilateral relations.

In the alliance system itself, Hungary was in every respect strongly dependent on the Soviet Union (Enyedi 1978). During the 1980s, the nature of this dependency started to change, however. Minor conflicts in economic relations cropped up. Controversies became more frequent primarily due to a more pronounced defence of

Hungarian interests. At the same time, the stability of military relations was regarded as a taboo subject (Swain 1992).

Hungary's relations to neighbouring socialist countries in the 1980s were not without problems. In fact, relations with Romania became critical due to the rapidly worsening conditions of the Hungarian minority (Shafir 1985). Relations with Czechoslovakia, on the other hand, were fluctuating, mainly owing to problems surrounding the construction of the Danube dam, and a similar worsening of the situation of the Hungarian minority (Wolchik 1991).

Compared to previous decades, Hungary's relations with Yugoslavia were characterised by relative stability. Yugoslavia was mainly occupied with its internal problems, i.e. the difficulties of transformation after Tito's rule.

Hungary was an integral part of the economic division in the Comecon and was heavily influenced by the Soviet Union economically. At the same time, the commitment to socialist economic co-operation was gradually becoming less intense, partly because of an emphasis on national economic interest, and partly because of a gradual integration into the Western economic world.

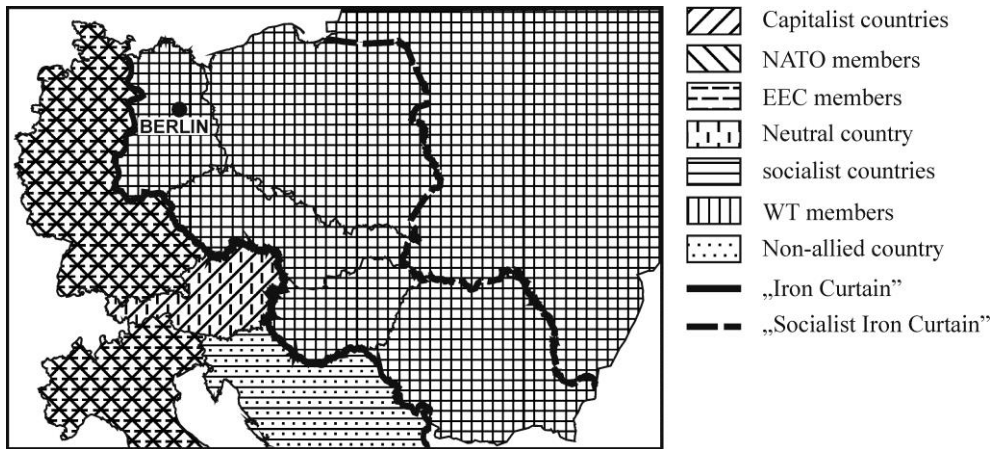
A breakdown of the export-import balance shows that in 1985 the basic structure of Hungarian foreign trade was dominated by socialist and especially by Comecon countries, both in terms of imports (54.4%) and exports (58.6%). A significant role was played by developed capitalist countries (38.5% and 30.8%, respectively). The share of developing countries was low (7.1% and 10.6%, respectively).

Hungary's most important trading partner was the Soviet Union: its share of imports was 30%, and exports 33.6%. The significance of the Soviet Union in Hungary's foreign trade was partly based on economic, and partly based on political-ideological grounds. The second most important trading partner was the Federal Republic of Germany with an 11.4% share in imports and 7.8% in exports.

In the second half of the 1980s, one novelty was the development of cross-boundary relations along Hungary's Western and Southwestern borders. Hungarian counties close to the Western border were more and more involved in the Alps-Adriatic Co-operative Community, first as observers, then later as full members. This relationship was of great significance. In regards to its socialist allies, attempts at improving cross-border relations were unsuccessful. On the Soviet side of the Hungarian-Soviet border, another 'Iron Curtain' was built for in effect the whole era. Except for the movement of considerable volumes of goods, no regional co-operation developed at the Hungarian-Soviet border. (Hungarian and international theorists of political geography have paid little attention to the issue of the socialist Iron Curtain. At the same time, one cannot understand the nature and logic of the Soviet Union's peculiar relations to its smaller European allies without taking this into consideration.)

By 1989, Hungary's imports were already dominated by 'non-rouble accounting' trade (61.6%), while the proportion of rouble-accounting imports decreased dramatically (38.4%). Exports underwent a similar restructuring: 62.2% of all exports were non-rouble accounting.

Figure 2.1 Political geographical situation of Hungary in the divided Europe, 1988



Source: The author's own compilation.

The breakdown of imports shows that the share of Comecon countries was at 39.6% in 1989. EEC countries accounted for 29%, EFTA countries for 13.8%, while the rest of the world had only 17.6%. Exports showed a somewhat different picture (Comecon 41.8%, EEC 24.8%, EFTA 10.7%, others 22.7%). Largely due to the role played by the Soviet Union, Hungary's foreign trade was centred on its neighbours.

With respect to military structure, the country was fully integrated into the organisation of the Warsaw Pact. In effect, it was subordinated to the military doctrine of the Soviet Union. The Hungarian Army was in every respect (technical support, strategic planning etc.) dependent on the Soviet Union, and was in effect supervised by the Warsaw Pact.

Hungary's position in terms of military policy was mainly determined by its location in the territorial system, the 'enemy image' of the Warsaw Pact and by Soviet geopolitical strategy. Within the alliance itself, Hungary was regarded as a Southwestern European country on account of its strategic position (Figure 2.1). From this point of view, Hungary did not occupy a central place in the front between the two world systems. It was defined as an 'ancillary field of operation'. (At the same time, the amount of military equipment left behind by the withdrawing Soviet troops indicated that preparations had been made for a different strategic objective.)

The stationing of the Southern Forces of the Soviet Army served not only external but also an internal purpose: political repression. The territorial distribution of Soviet military resources clearly showed that they were aimed at Western targets (external application). At the same time, they were concentrated in a circle around Budapest (internal repressive application). The Hungarian Army outnumbered the Soviet military in the country, but the former commanded significantly smaller firepower. Particularly striking was the weakness and obsolescence of the Hungarian air force as compared to its Soviet counterpart stationed in the country. This

structure was evident throughout the country and accounted for the Hungarian army's dependency.

Hungarian-Soviet military relations remained stable until the regime change. In January 1988, the so-called Friendship '88 field manoeuvres were organised with the participation of the Hungarian, Czechoslovakian, and Soviet armed forces. In accordance with new European political, security, and military policy agreements, Western observers could follow the manoeuvres all throughout.

In October 1988, the Joint Council of the Armed Forces of Warsaw Pact Member Countries held its meeting in Budapest. It focused on possible consequences of disarmament. After the meeting, Hungarian-Soviet military manoeuvres were held, once again with the participation of Western observers.

In December 1988, Mikhail Gorbachev announced in the UN General Assembly that the Soviet Union would reduce the number of Soviet troops stationed in Hungary, Poland, and Czechoslovakia. At their November 1989 meeting, Defence Ministers of the Warsaw Pact were already negotiating the ways of ensuring sufficient defence in the new situation. During this period, the possibility of transforming the Warsaw Pact into a genuine defence organisation was first considered.

Hungary preceded other socialist countries in having recognised the importance of the European Economic Community, (with the exception of the GDR which was in a special situation due to its existing trade relations with West Germany). As early as 1982, Hungarian and EEC experts commenced negotiations on improving trade relations. The EEC, which itself was growing in size, played an increasingly important role in Hungarian foreign trade. The improvement of bilateral economic relations was in Hungary's prime interest.

Seen from the point of view of the 'statistical incidence of boundary crossings', relations with neighbours were highly peculiar in the final years of the 'building of socialism'. In terms of the average border length per railway and highway border crossings at the end of the period, the Austrian border appeared the easiest to cross (in this and every other respect too), while the Soviet border proved the most 'resistant'. Immediately after the introduction of the so-called 'world passport' (valid to every country in the world – translator's note) in 1989, masses of Hungarians travelled to Austria to purchase commercial goods. Meanwhile, Hungary was not yet in a position to disregard the security expectations of the 'socialist camp'. For instance, the Iron Curtain built along Hungary's Western border could be removed only at the end of this period. In February 1989, the Austrian and Hungarian governments finally agreed to dismantle it and in fact did so only a few weeks later.

From 1986 onwards, a number of 'pluralistic' associations and organisations were founded still, however, within the limits allowed by the constitution of the time. These organisations regarded the review of the country's geopolitical position as one of their principal tasks. Some of these organisations accepted the political protection of the People's Front (an umbrella organisation for movements of the pseudo-civil society of the time – translator's note). Some, however, formulated

programmes with radical new demands concerning the country's international position. The new watchwords included:

- *'Back to Europe'*: the Hungarian nation as an independent state is to be allowed to freely integrate into the political, moral and economic community of European nations and into European culture as a whole.
- *Central European integration*: nations of the region are to form an economic and political alliance based on mutual advantage, voluntarily and without external intervention. Only this can ensure the resolution of ethnic conflicts in a democratic spirit.
- *'United Hungarian nation'*: all Hungarians – that is, 15 million people – are to be recognised as forming part of the Hungarian nation. The Hungarian government is to represent the interests of Hungarian minorities on the international scene.
- *Independent Hungary*: Hungary should re-evaluate its international relations in accordance with its current national interests and abandon the foreign policy doctrine adopted in the Stalinist era.

The scope of action enjoyed by such associations gradually increased. New movements (Hungarian Democratic Forum) and alliances (Alliance of Young Democrats, Alliance of Free Democrats) appeared on the political scene. These in effect functioned as parties, even though they were not called parties strictly speaking for some time. These political organisations raised issues concerning the country's foreign policy orientation without feeling bound by previous commitments.

One of the crucial aspects of the programmes and declarations of parties appearing in 1989 involved the rethinking of the country's alliances as well as the assessment of available opportunities and constraints. Every serious actor had to tackle the issue of the Warsaw Pact and the Comecon. On pragmatic grounds, most parties declared the reform of these organisations as their minimal aim. Hungary's 'approved exit' constituted, however, the maximum aim and also most desirable goal. Most political declarations affirmed Hungary's neutrality. Several parties argued for the need to simultaneously dissolve NATO and the Warsaw Pact. This was to be followed by a formation of a collective European Security System.

In June 1988, National Roundtable Negotiations had begun between the ruling party and various associations of the political opposition. These negotiations concerned the country's situation at the time as well as its future. The realisation of peaceful internal transformation resting on a broad consensus was the principal objective. Negotiations primarily centred on domestic political affairs, but foreign policy orientation was also a debated issue.

By permitting GDR refugees to leave the country in September, the Hungarian government openly abandoned the policy pursued by socialist countries in such matters. This opening of the Iron Curtain had major international consequences and impacted directly on the domestic situation in the GDR.

At the 14th Party Congress, the Hungarian Socialist Workers' Party dissolved itself, and the Hungarian Socialist Party (MSZP) was created. The dissolution of the previous state-party created an entirely new situation. The MSZP was forced into

unprecedented political competition and was also burdened with the political past of its leaders.

Democratic changes in European socialist countries put in doubt the basis of previous economic, political, and military structures; and the unity of the 'socialist camp' on the whole.

In foreign policy, improved co-operation with Yugoslavia, Italy, Austria, and Hungary now became possible. In November 1989, neutral Austria, 'non-committed' Yugoslavia, NATO-member Italy, and Warsaw Pact-member Hungary, conducted high-level consultations concerning closer economic and political co-operation among countries of the region. At the same time, the Hungarian government submitted an application to join the Council of Europe.

In March 1990, the Hungarian and Soviet governments concluded an agreement concerning the complete withdrawal of Soviet troops stationed in Hungary. Immediately after the signing of the agreement, the withdrawal of troops began. The withdrawal also served to deliver a domestic political message on the eve of the first multi-party elections, namely that the new MSZP was able to restore national independence and represent the independent country's interests abroad.

During the 1990 election campaign, the issues of foreign policy orientation and the country's neutrality were raised once again. In the area of foreign policy and alliances, one found consensus among the parties concerning:

- the restoration of the country's independence
- and the desire 'return to Europe'

In April 1990, prime ministers and heads of state of Czechoslovakia, Poland, and Hungary began negotiations on widening co-operation among transitional democracies. At around this time, the process leading to the creation of the so-called Visegrád Group began. Its main priority was to co-ordinate - under the potential leadership of Poland - common measures undertaken by more developed Western countries of the Comecon and the Warsaw Pact, i.e. by countries that were in the forefront of democratic changes (Schöpflin 1992; Story 1993).

Thus in the last decade of the long history of state socialism, economic and political crises combined with the crisis of the regime change reinforced each other. Previous social consensus and legitimacy gradually disappeared. The restructuring of world politics accelerated the search for a new orientation in international relations.

Hungary in the 'Grey Zone' (Leaving the Warsaw Pact and the Comecon – Whither Now?)

Parallel to the fundamental changes in economic, social, political and power structures within the country described above, the former world system was also going through a global transformation. European structures were fundamentally altered leading to the dissolution of the previous alliance system. The newly emerging 'grey zone' offered new scope for action, a degree of freedom, new responsibilities, but also constituted a source of new challenges and anxieties for Hungary (Tunander *et al* 1997).

The 1990 multi-party parliamentary elections were won by the Hungarian Democratic Forum but not with absolute majority. Immediately after its formation, but still before the new government took over, the new parliament had discussed the review of the relationship between Hungary and the Warsaw Pact and the need for a new political solution. The parliament rejected the possibility of unilateral withdrawal, and called upon the newly formed government to initiate negotiations on the conditions of withdrawal.

Foreign policies outlined in the government programme were regarded as pragmatic at least insofar as the new government declared that it intended to respect previous international treaties. At the same time, in accordance with the new political situation, it also set new aims and gave priority to European integration.

The importance of co-operation among countries in the Adriatic and Danube regions (Pentagonale) was widely emphasised after the Hungarian elections. Co-operation among military blocks played a significant role in maintaining the stability of the region and also enjoyed the direct political support of Western countries (Biermann and Loboda 1992; Carter 1995).

Hungary joined the EFTA (June 1990); established diplomatic contacts with NATO (July 1990), and the European Economic Community opened its embassy in Budapest (July 1990). The establishment of these diplomatic relations with Hungary, who was still a member of the Warsaw Pact and the Comecon, was meant to express support for the new foreign policy of the Hungarian government.

In September 1990, the Hungarian government agreed to the GDR's exit from the Warsaw Pact. In light of Germany's impending reunification, this exit was in every respect a logical move. It also lent support to Hungary's legal position on the possibility of withdrawal from the Pact. In October, the Hungarian government confirmed that by the end of 1991 it intended to leave the military organisation of the Warsaw Pact. (In other words, a complete withdrawal from the organisation was not yet on the agenda at this time.)

In January 1991, Hungary sent a medical unit in support of Operation Desert Storm against Iraq, which was aimed at liberating Kuwait from Iraqi occupation. The operation was conducted under the auspices of the UN, but in effect was relying on the military power of the United States. Hungary thus demonstrated its new international orientation and its commitment to Western values (Bognár 1993; Balogh 1998).

The new government paid significantly more attention to the position of the Hungarian minorities in neighbouring countries than its predecessors. Prime Minister József Antall's declaration of wanting to be the prime minister of 15 million Hungarians 'in spirit' signalled the beginning of a new era in politics in which the interests of the Hungarian nation were to be represented partly by means of foreign policy. Regional politics were dominated by the issue of Hungarian minorities, particularly in Romania.

Hungary's relations with the EEC and NATO gradually strengthened after the establishment of diplomatic relations. This was by no means intended to be 'two-faced' politics, but rather as an attempt to occupy a new position in the intricate international and internal situation at the time (Siposné Kecskeméti and Nagy 1995).

Neither the United States nor Western Europe had been prepared for the suddenness of the changes in Eastern Europe.

Hungary's relations with Czechoslovakia were burdened by the case of the Danube dam. The conflict was further exacerbated by Czechoslovakia's announcement in 1991 to the effect that it would continue construction on its own territory despite the fact that doing so would involve changing the Danube's course unilaterally. (The case was heard by the International Court of Justice at The Hague, but the decision did not ease the tension between the two countries.)

In February 1991, Czechoslovakia, Poland, and Hungary signed a co-operation agreement. This co-operation among Visegrád countries was an attempt to fill the political vacuum in Eastern Central Europe. However, Poland was in every respect too weak to become an internationally respected actor in the region.

On 25 February, at the special meeting of the Political Council of the Warsaw Pact in Budapest, previous military agreements were declared invalid, and the military body of the Warsaw Pact was dissolved on 31 March 1991. On 19 June, the last Soviet soldier left Hungary's territory.

On 28 June 1991, Hungary accepted the dissolution of the Comecon, thereby creating new conditions for its economic relations not only with former member states but also all other regions. A few days later, it was agreed that not only the military body but also the whole Warsaw Pact would be dissolved. By 1 July 1991, Hungary had become a completely free country no longer a part of any economic block and without any foreign military presence.

The Yugoslavian crisis, ultimately culminating in the outbreak of civil war in August 1991, burdened Hungary's relations with Yugoslavia. The tension was heightened especially by Hungary's sale of arms to Croatia and subsequent border violations by the Yugoslavian armed forces (O'Loughlin and Wusten 1993; Owen 1995).

At the same time, in response to the transformation of the regional environment, Hungary and the EEC ratified their association agreement in November 1991. Hungary's treaty with the EEC did not automatically guarantee actual membership, yet it could be seen as the first step towards that goal.

The attempted coup in the Soviet Union in August 1991, and later the dissolution of the Soviet Union, created an entirely new situation for Hungary. The establishment of an independent Ukraine and the creation of new Russia, gave rise to new state structures, new power relations, new interests along the North Eastern borders of Hungary and, on the whole, in the region lying East of the country (Nagy 1995).

A new approach to regional politics was also indicated by the fact that Hungary was among the first countries to recognise, on 15 January 1992, the independence of Croatia and Slovenia, and to establish diplomatic relations with its new neighbours. Hungary stressed its neutrality in the Yugoslavian crisis (primarily because of the Hungarian minority in Vojvodina). Nevertheless, it was clearly sympathetic to the aspirations of Croatia and Slovenia and supported these countries as much as it was possible at the time.

The Hungarian-Serbian relationship was worsened not only by these measures, but also through Hungary's participation in the international embargo. This participation established new relations between Hungary and Western European organisations. (By complying with these measures, Hungary sustained considerable losses in material terms, but also benefited from significant political advantages in exchange. Real economic gain accrued only to Hungarian and Yugoslav smugglers living in the border zone.)

The Hungarian government's aim was to rely on bilateral treaties in order to settle its relations with its neighbours, ex-republics of the former Soviet Union and its most important partners. The first such document was the Hungarian-German bilateral treaty signed in February 1992. This was followed by the Hungarian-Lithuanian, the Hungarian-Croatian and the Hungarian-Ukrainian treaties. The latter caused a crisis for the governing coalition, and could only be ratified with the votes of the opposition.

In the wake of Czechoslovakia's dissolution in 1993, a new state and hence a new situation emerged along Hungary's Northern borders. The relative percentage of Hungarian minorities in the total population was higher in Slovakia than formerly in Czechoslovakia. This did not contribute to easing relations between the two countries but rather rendered them more complicated.

Figure 2.2 Hungary's new neighbouring environment, 1993



Source: The author's own compilation.

In the beginning of the 1990s, Hungary's neighbouring environment was completely restructured (Figure 2.2). Hungary became more powerful than before in its relations to the newly emerging states. For the most part, the Hungarian social and political elite displayed great restraint while the transformation of neighbouring countries was taking its course. This restraint also characterised the majority of Hungarian minorities in neighbouring countries. More often than not, Hungary and the Hungarian minorities acted as a stabilising factor in the region.

The free trade association set up together with neighbouring states (CEFTA) opened up new opportunities and enabled new forms of co-operation. At the same time, especially in the case of agricultural products, it also brought conflicts of interests to the surface without being able to channel them efficiently. Nevertheless, CEFTA played a positive role in relations among former socialist countries since it helped to prepare them for the expected consequences of EU accession.

Hungary: A Member of NATO

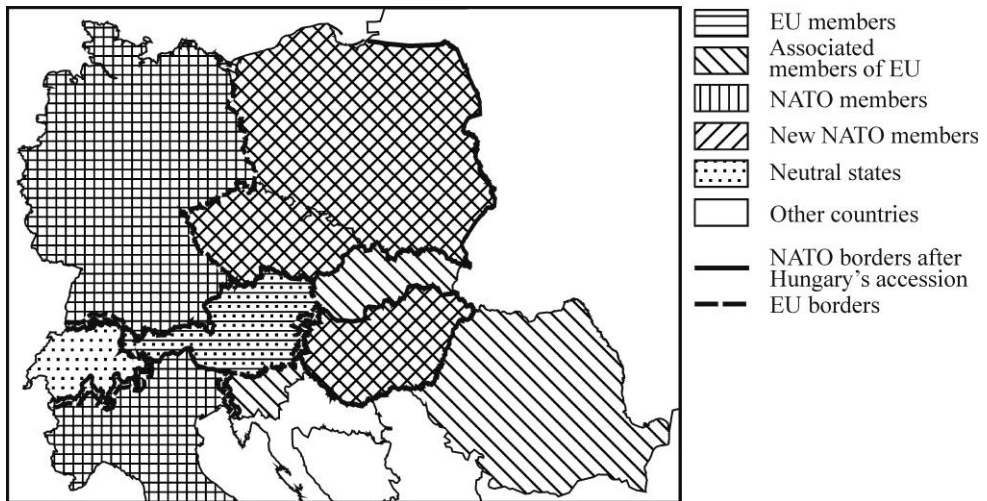
After the 1994 parliamentary elections, the new socialist-liberal government and parliamentary majority gave priority to continuity in its foreign policy orientation. Only in its relations with neighbouring countries did the government effect certain changes while the principal political objectives remained the same. The bilateral treaties signed by the new government with Romania and Slovakia (not greeted enthusiastically by all political forces at home) both served to stabilise bilateral relations and facilitate Hungary's accession to NATO and the European Union. The new coalitions not only continued but also accelerated preparations for the accession to both organisations (Bognár 1995; Burdac *et al* 1998; Deák 1997, 2004).

Among new global and continental conditions, NATO enlargement has of course continued to raise concerns about the security of the Ukraine and Russia. The Partnership for Peace programme in January 1994 signalled the need for comprehensive measures to strengthen mutual trust. In order to demonstrate that it did not regard the two militarily most powerful states of the former Soviet Union as enemies, the alliance had to integrate them into a common security system. The relationship with the two countries based on this agreement provided a minimal guarantee for the two Soviet successor states (Ehrhardt 1997).

The smaller former socialist states started to compete for inclusion in the first round of NATO-accession. Candidates regarded membership as an external guarantee of security and as a valuable acknowledgement of their respective internal democratisation processes (Janning and Weidenfeld 1993). Thus NATO's decision in July 1997 to invite the Czech Republic, Poland, and Hungary was primarily an expression of an internal compromise among member states. At the same time, it also constituted recognition of democratic developments that had taken place in these three countries.

Hungary joined NATO after a successful referendum and the completion of the ratification process in member states in early 1999. Due to a new political-military situation and partly conflicting economic interests, Hungary became a member of

Figure 2.3 Hungary in the territorial structure of NATO, 1999



Source: The author's own compilation.

the NATO before it joined the European Union. This is noteworthy because at the beginning of the change of regime, the exact opposite state of affairs appeared to be more probable.

Within NATO's territorial structure, Hungary found itself in a very special situation. As a 'landlocked island', it shared no common borders with other member states (Figure 2.3). This position did not cause difficulties since Slovenia's NATO orientation continued and after the 1998 elections. Slovakia also increased its efforts to accelerate the accession process. (By contrast, Austria's internal political debates on the issue of 'eternal neutrality' and the pros and cons of NATO-membership will presumably last for many more years.)

NATO air strikes against Serbia in spring 1999 put the new member Hungary under considerable pressure. Hungary was indirectly involved in a military operation against a neighbouring country – in fact, it was for all intents and purposes an undeclared air force campaign without UN approval. Moreover, given Hungary's NATO-membership its involvement in this campaign may even be called direct. Air operations were launched from Hungarian territory and its air space was used against a neighbouring country.

Hungary was assigned to the Southern command of NATO. As a NATO member, Hungary was situated close to the enduring Bosnian crisis. For this reason, the air base at Taszár served as an important logistic centre supplying international military forces stationed in Bosnia.

Formally speaking, NATO membership does not infringe on the country's sovereignty (the country's commitment to the alliance did not automatically entail all possible military and political consequences of membership). In practice, however, each of Hungary's foreign relations and every issue regarding its security policy are cast in a new light within the framework of the alliance.

In spring 2004, Slovenia, Slovakia, and Romania became members of the NATO. As a result, Hungary ceased to be a 'landlocked island' in the alliance. In addition, most of the country's borders were once again turned into internal borders of the alliance. This contributed to increasing the country's security. Furthermore, it is important that most Hungarian minorities living in neighbouring countries also became part of an alliance system that rests on shared values of democratic politics.

Membership in the European Union

The European Union reached a new phase of its history at the end of the 1990s. It had to find answers to questions concerning the future of the integration process, the introduction of a new currency and come to terms with the practical experiences regarding the working of the Union itself. Moreover, these challenges had to be met at a time when some countries once again began to pursue national interests within the EU more vigorously (Hargitai *et al* 1995; Izikné Hedri 1995; Inotai 1998).

Several conceptions of EU enlargement were developed (involving alternatively a minimal, medium or large group of new members) (Weidenfeld 1995; Urwin 1999). In the beginning, the small-group scenario (Czech Republic, Poland, Hungary) appeared most likely. The EU summit of December 1997 in Luxembourg named the countries invited for accession negotiations and Hungary was one of the six countries. In other words, at that time, the idea of a medium-sized enlargement group appeared to be the winner.

It was not only the circle of potential accession countries that was uncertain for a long time, but also the date of accession. At the time of EU-accession negotiations, several working hypotheses about the time of accession were in circulation. Finally, May 2004 was announced as the target date. That enlargement involved a large group with 10 countries becoming EU members at the same time.

As a result of the accession, Hungary's national borders became difficult to characterise unequivocally. A significant part of Hungary's borders have turned into internal EU-borders (with Slovenia, Austria, and Slovakia). At the same time, borders shared with the Ukraine, Serbia, and Croatia have become external EU-borders with all the legal, economic, and political implications of such a change. Romania was promised accession in 2007. It is also possible that Croatia will join the EU soon.

EU-accession was decided by a referendum in Hungary. Therefore, it was the will of the electorate and not simply the objectives of the political elite that legitimised membership. There was in effect a social consensus among the majority of potential voters. Nonetheless, low turnout in the referendum must be treated as a warning for the future.

Hungary's trade relations were dominated by the EU even before accession. Consequently, accession – in spite of the visible and less visible risks for both parties – did not bring about dramatic changes. It only stabilised already existing structures.

Figure 2.4 Geopolitical situation of Hungary, 2004



Source: The author's own compilation.

Efforts at framing the EU-constitution came to a halt in spring 2004. By the summer of the same year a new compromise was achieved with respect to the numbers of votes allotted to individual states. (Although debates about the constitution in several countries introduced new uncertainties into the process.) Meanwhile, there can be no doubt that Hungary's long-term interests necessitate participation in a clearly structured and transparently organised EU that pursues well-defined objectives.

With membership in NATO and the EU, Hungary became a part of Euro-Atlantic organisations and contemporary history. Thus from 'West of the East', Hungary found itself in the 'East of the West'. This is true not only in a topographical sense (Figure 2.4).

Conclusion

Hungary's membership in the alliance of socialist countries was primarily involved in being linked to the Soviet Union, the leading power of the alliance. Less important were bilateral relations with other member states. Both the Warsaw Pact and the Comecon were in effect unipolar organisations dominated by the Soviet Union despite the official declaration of the equality of member states. The character of both organisations, especially that of the military alliance, was determined through the significance of the Soviet Union in world politics.

The fate of the bipolar world and that of a divided Europe, as well as the opposition of the capitalist and socialist military blocks after World War II, underwent frequent changes. On the whole, antagonisms were weakened, after the signing of the 1975 Helsinki Final Act. The economic and political crisis faced by socialist countries at the end of the 1980s gave rise to new threats, but in any case the opposition of the two world systems came to an end after the collapse of the Soviet Union.

This process of transformation depended primarily on world politics and power structures; Hungary enjoyed only a limited scope of action to influence the overall course of events. Under the new circumstances ushered in at the end of the 1980s, Hungary was presented with an entirely new range of opportunities. After 1990, Hungary's situation gradually changed. The dissolution of the Warsaw pact; the withdrawal of Soviet troops; the dismantling of the Comecon; social, economic, and political transformation at home; the abolition of former political institutions; and, what has been referred to as the 'change of regime' has opened up new possibilities for Hungary both in its internal and external relations.

As a result of external and internal transformations during the 1980s, the Hungarian state socialist system was first challenged and then rejected completely at the democratic multi-party elections of 1990. This date is one of the most important turning points of the era. It brought about Hungary's independence and placed it outside military blocks.

It was not only Hungary's environment in world politics that changed fundamentally, but also its relations to its European neighbours. The country had established relations with Western European organisations already at an earlier state. The Hungarian political elite and the general public agreed on the priority of accession to the transforming European Union and wasted little time in preparing for the accession process and expected membership.

Changes taking place in Hungary's neighbours involved primarily the dissolution of former socialist federations and a corresponding increase in the number of independent neighbour states. Newly independent neighbours (Slovakia, the Ukraine, Croatia, Slovenia) have in many respects less weight than their predecessor states. Thus Hungary's scope for action increased to some extent in its neighbouring environment. The formation of new states brought about uncertainties. Especially the series of civil wars in the former Yugoslavia, which posed serious security risks for Hungary. At the same time, these bloody events accelerated Hungary's accession to NATO.

Joining the Euro-Atlantic military alliance fundamentally transformed the country's external security situation. Hungary became part of the European security system. The war against Serbia, however, also showed that the new alliance system also carried its own political risk. New limits to promoting the country's interests were discovered.

Membership gave new content to Hungary's integration into European structures. It is also important to see, however, that the accession marks only the beginning of a long process of adaptation, adjustment, and learning; and in the short run, new structural changes can also harm various economic sectors and social groups.

From the perspective of the historical experiences of Hungarian society, accession to these two organisations signalled a fundamental turnaround: for the first time in its modern history the country joined a new alliance and became member of a new integration not out of compulsion, but on a voluntary basis and legitimised by a popular referendum.

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Chapter 3

Decentralisation, Regionalism and the Modernization of the Regional Economy in Hungary: A European Comparison

Gyula Horváth

Ineffective Attempts at Decentralisation in the 20th Century

The development of the European nations and states in the 19th century affected the territorial structure of the various countries in different ways. In those states with several regional centres (e.g., Italy, Germany and Spain), the industrial boom and the development of a transport infrastructure affected several urban areas. These centres developed along similar lines, and, in consequence, decision-making headquarters were located in these various geographical locations. In this way the cultural, political and administrative institutions assumed a decentralized form. In countries with a single centre (e.g., France, Austria-Hungary, most East Central European countries, and, in part, the United Kingdom), the peripheries, as opposed to the dominant capital, performed rather poorly. For instance, the railway network was developed radially to best serve the interests of the capital, where, additionally, the cultural and political functions were focused.

Strong regional economies affected the development of the political state and the process of national integration in various ways, and strong industrial interest groups were generally concerned to develop integrated national markets to ensure favourable market opportunities for their goods. However, in applying protective tariffs, national and regional interests were sharply opposed. Business interests would often override regional élites, and the protection of national markets, safeguarded by the central administration, counted for more than the autonomy of local government institutions. Confrontation with central government was discouraged.

Similar economic interests were at work in the multi-centred Austro-Hungarian Monarchy. The dominance of its agriculture within the empire gave room for little emphasis on industrial development in Hungary, and the largest industrial centre,

apart from the capital, was Bratislava, which employing six thousand industrial workers. These two were followed by Timisoara, Arad, Brasov, Miskolc, Debrecen and Pécs with 4 to 5 thousand (Beluszky 1999: 137).

After the Treaty of Versailles, the territorial processes which had evolved in the second half of the 19th century, driven by the development of modern industry and by the emergence of the financial institution system, came to an end. The traditional geographic areas of economic development were fragmented, and the new national borders split natural gravity zones into two, abolishing links among the various factors of production. The resulting economic structure of the new state was extremely unbalanced. The industrial boom of the previous decades had mainly favoured Budapest: for instance, according to industrial statistics for the year 1913, Budapest accounted for more than half of the 215 thousand industrial workers (including miners) who lived in what became the territory of the new state. In the top sector of the manufacturing industry the significance of the capital was even greater: 90% of all machine industry output came from Budapest, with no significant capacity found elsewhere in Hungary, other than in Győr, although between 1881 and 1914 the country's industrial development policy had provided support to more than half of the counties of Greater Hungary. However, out of those counties which remained within the present-day borders, only Vas, Moson, Győr and Csongrád counties had received such central development funds (apart, that is, from those allocated to the extractive industry) (Edvi Illés and Halász 1921). The territorial pattern of direct taxation, which illustrates very well the general productivity of the economy, also clearly characterised a single-centre country, Budapest's share of all taxes raised reaching 59% (Table 3.1). This shows that the basic patterns of the present spatial structure had already emerged by the start of the century: an outstandingly developed Budapest and a relatively developed North Transdanubia, with the remaining two-thirds of the country at a very low level of development.

Between the two world wars the inequalities in Hungary's territorial structure not only remained; but the structural modernization of the machinery industry further strengthened the position of the capital. In 1930 Budapest accounted for 60% of all industrial employment in Hungary, but its share of total industrial output surpassed even this. The centres of dynamically developing large-scale industry were all located in Budapest, as were the current research and development facilities. In 1938 54% of the 13 thousand university students in Hungary studied in Budapest.

Table 3.1 Territorial patterns of direct taxes in Hungary, 1913

Region	Total direct taxes, '000 crowns	% of total	Population, '000s	% of total
Budapest	188,525	58.6	930	14.4
North Transdanubia	37,066	11.5	1,175	18.2
South Transdanubia	22,822	7.1	1,222	19.0
North Hungary	17,375	5.4	993	15.4
Great Plain	55,876	17.4	3,128	33.0
Total	321,664	100.0	6,448	100.0

Source: Calculations by the author on the basis of Edvi Illés–Halász, 1921. p. 74.

The development of the weak territorial structure of Hungary and the establishment of an administration capable of creating appropriate political cohesion dominated much debate in the later 1920's. It was, however, mainly experts in law and administration who discussed the significance of centralised and decentralised political solutions and the social conditions necessary for decentralisation; representatives of other sectors of the economy and of society rarely expressed opinions (Hencz 1973). The insistence of Kuno Klebelsberg, the then Minister of Culture, on the development of cultural centres apart from Budapest, was a rare exception. His lines in the *Pesti Napló* on the 15th. of September, 1927, offer a brief criticism of Hungary's 20th century government policy:

'In Budapest, a dirty pond in Lágymányos is the last vacant site, and so, either a university town will be built there, or, as we have seen elsewhere abroad, we will have to consider moving the centres of our scientific life to Szeged or Debrecen. These two cities on the Great Plain not only provided land for the construction of their universities, but also contributed fifty percent of the cost. Why should Budapest alone, of all the towns in the country, enjoy all national institutions and buildings free of charge? In the name of equity this system can no longer be maintained!' (Klebelsberg 1928: 75–76).

As part of the preparations to World War II, some heavy industrial development took place in the provinces, a movement which reduced Budapest's share of industrial employment to 54%. In the course of post-war reconstruction, several factories in Budapest which had been destroyed were not rebuilt, whilst the capacity of some provincial ones was increased. In this way, by 1949 the capital's proportion had further declined to 51%. A similar rate characterised the territorial structure of large-scale industry (Table 3.2).

In spite of the fact that, between the two world wars, a great number of academic groups, professional organisations, political forces and government actors called for decentralisation and the economic and cultural development of the major cities, no radical changes were generated in the spatial structure of the Hungarian economy.

In the 1950's hardly any signs of regional development were to be seen, the only positive factor being that developed industry was no longer restricted to the capital.

Table 3.2 The territorial distribution of employment in state-owned industry, 1949

Region	Employment, '000s	% of total industrial employment	% of total population
Budapest and Pest county	435	55.5	24.7
North Transdanubia	133	17.0	16.4
South Transdanubia	41	5.1	13.7
North Hungary	113	14.4	12.6
Great Plain	63	8.0	32.6
Total	785	100.0	100.0

By 1955 Budapest's share of total industrial employment had declined to 44%. Even though, in the meantime, industrial employment had also increased in Budapest, this was outperformed by increases in the provinces. New industrial areas emerged, most importantly along Hungary's Higher Uplands, with Miskolc as the main centre. Industrial centres were also established in Nógrád, Pécs–Komló, Tatabánya and Várpalota, forming the Northeast–Southwest industrial axis of Hungary.

The highly centralised economic and political administration did not even tolerate efforts by the more backward areas and settlements to make progress, even relying on their own resources. The council system, established in 1950, abolished the weak local authorities of the individual settlements and assigned to the newly formed councils the single task of carrying out the orders of central government.

The reform of economic management in 1968 also opened a new chapter in regional development. The decentralisation of some economic decisions did, in fact, encourage geographically diversified development, and, in consequence, an increasing proportion of the settlement network came to be involved in what we might term the gravitational field of the modern economy.

The new regional development policy was outlined in two resolutions of the Council of Ministers in 1971. One of these regulated the administrative procedures of regional planning, and included, for the first time in the history of Hungarian regional policy, a social objective: to decrease inequalities in living standards across the different parts of the country.

Although the reform of regional and settlement development was initiated only a few years after the reform of economic management had been launched, this time-lag proved to be significant. By then, the opponents of the reforms had already launched their counter-offensive for re-centralisation, and, consequently, the emerging policy of regional and settlement development remained rather centralized: the elements of autonomy were purely formal and contained little of substance. For example, central control over the councils' financial administration simply deprived these of the economic base necessary for their so-called autonomy. In the 1970's, as a reaction to increasing economic problems, central intervention became more and more frequent, and a number of temporary financial restrictions were introduced in a rather forced manner, most of which, in fact, remained in force until 1985.

Despite the indecisive nature of these measures, the introduction of reforms did produce significant changes. The effects of the economic regulations remained mostly indirect, whilst direct territorial control was exercised within a rather limited scope. One such direct measure was the establishment of the Regional Development Fund, which was allocated 2.5 billion HUF during the fourth five-year plan. Of this amount, 800 million was spent on the relocation of some industrial units away from Budapest, 400 million on the structural transformation of the coal-mining areas, and the rest on the industrialization of the backward areas, mainly those East of the river Tisza (Enyedi 1983).

A further factor which facilitated regional development to a remarkable extent was that industrial companies, in order to grow significantly, set up new units in provincial towns and in large villages where labour was more plentiful. A highly

intensive territorial expansion of industrial activity occurred between the late-60's and the mid-70's, although since then the territorial pattern of industry has hardly changed at all. The scale of expansion is indicated by the fact that industrial sites were built in nearly one thousand villages, in which, at the end of the period in question, one fifth of all industrial workers were employed, a number close to the ever-declining industrial employment rate of Budapest.

The great weight of company decisions allowed firms to decide for themselves the geographical location of their new industrial sites, and in this they usually pursued their own company interests. 40% of all provincial industrial sites had their headquarters in Budapest, and among the larger ones (those employing over 3000 people) this figure exceeded 70%. In this way the strong geographical expansion of industry was carried out by means of investment by large companies, whose headquarters were located in a fairly limited number of towns and cities. This also meant that the major industrial companies turned into multi-centre territorial organisations, and, although the division of labour within each was not based on geographical factors, they had a significant impact on territorial development. Although there were several examples of quality investment in the provinces, backward areas were very often the recipients of simpler, less developed or unprofitable sectors of industry, sometimes involving serious environmental damage. By contrast, company headquarters tended to focus on research and development and on organisational and decision-making functions, rather than on actual production. The regional impact of this phenomenon was the emergence of a new kind of regional backwardness, no longer characterised by a lack of industrial activity but rather by outdated technology and an inefficient industrial structure.

The forty years of the planned economy in Hungary generated an imprecise spatial structure. Late industrialization, many elements of which reflected the industrialization process seen in Western Europe's peripheral areas, did help to reduce territorial inequality, but at the same time it hindered the emergence and spread of those new tendencies in spatial restructuring and territorial organisation which were setting the development of the European economy on a new course. This had a fundamentally political reason, namely that the decentralisation of industry was motivated by traditional redistribution mechanisms, and, in consequence, no genuine decentralisation ever took place, since the spatial expansion of the economy was not accompanied by the delegation of power. The narrow concept of territorial equalisation, limited to a superficial focus on a few aspects of public infrastructure, did, in fact, help the re-distribution system to survive, and, in certain ways, even contributed to its revival.

Likewise, even after the systemic change of 1990, the forces of genuine decentralisation were unable to move ahead in Hungary, despite the fact that significant restructuring took place in all areas and activities connected to territorial development. Although the Regional Development Act set up the necessary institutions, allocated resources to them (no matter how limited) and laid down up-to-date objectives directed towards decentralisation, the forces of the market economy during the 1990's generated new processes of differentiation in Hungary's

Table 3.3 The concentration of some indicators in Budapest¹⁾

Indicator	1938 ²⁾	1985	2002
Industrial employment	3.86	1.18	1.22
Financial employment	3.14	1.65	1.99
Students in third-level institutions	3.00	2.50	2.22
Research and development personnel	4.75	3.67	3.14

Notes: 1) We express the extent of concentration using the indicator widely used in regional economics, the allocation rate, which is calculated from the capital's share in the given area divided by its share in the total population. (In 2002, for instance, the capital's share of total R&D employment was three times higher than its share of the total population); 2) Share of population was calculated from data of 1941

Source: Calculations by the author on the basis of various years and pages of Hungarian Statistical Yearbook and Regional Statistical Yearbook.

spatial structure. The post-industrial forces shaping the territorial structure of the country remained as highly concentrated in the core area as they had been in the earlier development periods (Table 3.3).

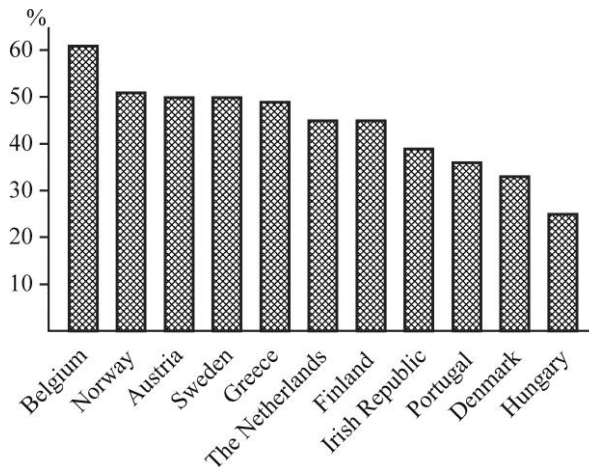
In consequence, the territorial structure of the Hungarian economy, in the wider sense, still fails to meet the competitive requirements of the post-industrial era and those of European integration. The decentralisation concepts and political ideas of the 20th century have all failed. In all decentralisation attempts throughout this period, success has been denied, on the one hand, by the inevitable resistance of central government and sectoral management, and, on the other hand, by the traditionally provincial behaviour patterns of the country's territorial administrative system. Various documents since the late 20's have emphasised the importance of regional urban centres (Debrecen, Győr, Miskolc, Pécs and Szeged) in the formation of viable regions, but to no avail: the current political élites, interested, as always, in short-term success, have ensured that at no time should any critical mass should be allowed to develop outside their seats capable of forcing, under favourable conditions, the decentralisation of power (Konrád and Szelényi 2000). Even today there are innumerable examples when the real, or apparent, dynamism of many county towns is not motivated by the future interests of regionalism and is not rooted in the need to prepare the city network to meet the challenges of European competition among cities; rather, their dynamism is motivated by political interests and political decisions. It is no accident that Kuno Klebelsberg's dilemma seventy years ago about the dirty pond in Lágymányos was finally solved with the erection of a large university campus on the site; whilst, in provincial academic centres, institutions are forced into formal integration in order to have access to resources on a much smaller scale. In the present territorial structure of tertiary education and academic research in Hungary it is no more than a futile dream to talk about knowledge-based regional development. The size and weight of the major university centres are inadequate to carry out what would be their new tasks (Table 3.4). The four largest university centres in Hungary (after the capital) account for only one fourth of all tertiary-level students, whilst the figure for European countries of a similar size is one-third to one-half (Figure 3.1).

Table 3.4 The share of major academic centres from all tertiary-level students, 1938–2003

Tertiary centre	Number of students			Share of total		
	1938	1985	2003	1938	1985	2003
Budapest	7178	44900	159501	54.3	45.2	43.4
Debrecen	1103	7291	23055	8.3	7.3	6.3
Miskolc	312	3953	13143	2.4	4.0	3.6
Pécs	1342	6480	23150	10.1	6.5	6.3
Szeged	1151	8999	27003	8.7	9.1	7.4
Other	2142	27721	121095	16.2	27.9	33.0
Total	13228	99344	366947	100.0	100.0	100.0

Source: Calculations by the author based on various years of statistical yearbooks.

Figure 3.1 The share of the four largest university centres other than the capital of all tertiary-level students, 1997



Note: Hungary: 2002

Source: Edited by the author on the basis of various pages of: International Handbook of Universities, 1998.

European Trends

In Western Europe, the system of relations between state, economy and society has been characterised by continuous change throughout the last five decades (Loughlin 2000). The decentralisation of power has been encouraged by global tendencies stretching across national borders, but in Eastern Europe the rigid political structures have hindered the evolution of the real processes of the economy.

The different cities and regions gave different responses to the impacts of globalization; they became winners or losers depending on their endowments and the strategies which they pursued. To protect their own interests, local and regional authorities took various measures in order to avoid the negative consequences of the global process. However, adaptation strategies encourage separation rather than assimilation, and this kind of separation is served by vigorous regional and cultural movements as well as by ethnic organizations, becoming increasingly effective worldwide. It is an open question, however, whether an identity-focussed regional strategy is capable of promoting the national and international positions of any region; whether this kind of strategy can provide enough developing power to improve a region's performance potentials (Keating and Loughlin 1997).

The answer to this clearly depends on the region in question. The Fordist-type industrial centres, the provincial regional centres or the global metropolitan areas have very different potentials for reactivity in the traditional sense. However, the quality of the classical production factors is only one condition of adaptability. Other, new criteria, those ensuing from the workings of a network economy, include such factors as effective relationships among the organizations and institutions of the region or city, the community's capability to institutionalize the common goals, the existence of local stimulators, appropriate preparation of collective decisions, and the practice of social consensus. This new set of competitive factors indicates that the success of local and regional development is no longer dependent merely on narrow economic interests, but also on the effective coalition and institutional co-operation of the actors with interest in regional growth (Horváth 1998).

A consequence of the post-modern concept of space is the gradual acknowledgement of the new regional development paradigm. The concept of development as based on a community's internal resources and on initiatives coming from its peripheries is gaining ground in the development strategies of the more developed areas; moreover, more and more countries consider the 'bottom-up' principle of development as a cornerstone of their central regional policies (Perulli 1998).

The processes of globalization continuously stimulate and quicken the restructuring processes of the post-modern economy. The economic paradigm established in the 1980's is expected to mature in the first decades of the new millennium, whilst the post-Fordist forces of spatial structuring will also have a lasting influence. High-quality services exploiting the advantages of urban agglomerations are forecast to boom and the concentrated decentralisation of these activities will continue to take place at different speeds in different countries. The pace of the process depends greatly on the role which each region assigns to the relevant tertiary and quaternary sectors in their development strategies, and on what weight the clustered sectors of high added-value represent in their economic development. The new concept of regional development, based on a strong professional background capable of matching the driving forces of globalization with the local endowments, will be an important selective factor in reducing or strengthening territorial inequalities.

Besides globalization, the second major group of factors affecting the integration of the different areas of Europe is the structural and organizational systems of the economy. Large-scale structural transformations have already been carried out in most countries of Europe, but not in Eastern Europe (Horváth 2004). In the Mediterranean regions, due to the great weight of the agricultural sector, the growth of the secondary and tertiary sectors is still continuing; in other areas, however, the internal structural transformation of industry, and, parallel to this, the development of production services, are still awaited. Flexible production management, relying on external resources, and technological restructuring may make high-quality services, such as business consultancy or research and development, the most rapidly developing economic sector. Today, the territorial distribution of high-quality production services is heavily concentrated, although, thanks to support ensured by conscious regional policies, some signs of de-concentration could be observed in the past decade in France, the Netherlands, Austria, the United Kingdom and in Italy. The recent specialization of the sector throughout Europe shows, however, that the core regions are reluctant to give up their existing positions. Nevertheless, the driving forces of decentralisation seem more effective, since the long-term competitiveness of regional specialization and territorial clustering depends heavily on the availability of high-quality services which ensure the continuous revival of the economy.

The organizational system of the economy will continue to be shaped by current processes well into the first decades of the new century. The weight of small and medium enterprises, now representing about two-thirds of the economy, will be maintained, and, depending on the success of the multi-national companies, these may even, albeit slowly, increase their presence in the manufacturing industry. SMEs are important in the strengthening of economic and social cohesion, and also, since they require relatively small capital investment, they can be a significant factor in resolving employment problems in backward areas. However, owing to the qualitative transformation of the economy and to the emerging concept of regional competitiveness, medium-size enterprises today develop even more rapidly and are more active in forming networks, whilst, at the same time, the value of links with large companies is also becoming more highly appreciated.

The tendencies towards a permanent transformation of the development factors of the European economy, the qualitative changes in European integration, as well as the impact of both on national political systems, do have a significant impact on the future development of the system of regional objectives, means and institutions. Significant changes are taking place in the macro-political interrelations of regional development and in the internal workings of regional policy (Le Galès and Lequesne 1998).

The most important lesson to be learned from centuries of regional policy development has by now become an integral part of European thinking. The national and sectoral policies of most European countries, as well as the cohesion strategy of the European Union, consider the concept of solidarity as the starting point of social action. This is what distinguishes the European model from the administrative practices of other continents. In the economic sense, cohesion means the reduction

of differences among regions and social groups in order for an ever-wider circle of the population to have a chance to contribute to economic development and to enjoy its fruits. The social aspect of cohesion aims to keep employment as high as possible, to improve the employment opportunities of the disadvantaged groups of the population, and to reduce unemployment. Finally, cohesion in the political sense takes the form of mutual help within each country and within the European Community; not simply in the form of income transfers, but in the common utilization of methods and means in order to make optimal use of internal resources. The development of the member states of the Union over the past two decades shows that regional cohesion has strengthened in those countries which have decentralized their system of economic development and decision-making, whilst in centralized countries cohesion has weakened (Table 3.5).

The changes over the past few years have suggested that, at the very beginning of the new century, the possibilities of regional policy will be determined by two fundamental factors over and above the general rules of economic development: the organizational, operational and financial reforms of the European Union; and, greatly influenced by this process, the emerging new way of power-sharing within each nation state: decentralisation (Michalski and Saraceno 2000).

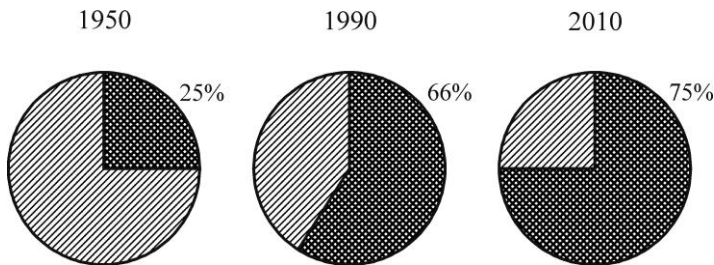
Table 3.5 Changing differences between the extreme values of regional GDP in Europe, 1977–2001

Country	Rate of highest and lowest value		Change	Type of state
	1977	2001		
<i>Countries of strengthening cohesion</i>				
Belgium	2.16	1.33	-0.83	Federal
Portugal ¹⁾	2.04	1.66	-0.38	Decentralized
Spain	2.27	2.10	-0.17	Regional
Italy	2.55	2.00	-0.55	Regionl
Austria	2.49	2.05	-0.44	Federal
France ¹⁾	2.08	2.05	-0.03	Decentralized
Germany ²⁾	2.22	2.11	-0.11	Federal
<i>Countries of weakening cohesion</i>				
The Netherlands	1.61	1.73	0.13	Decentralized
Greece	1.62	1.78	0.16	Unitary
Finland	1.59	1.87	0.28	Unitary
Sweden	1.11	1.59	0.48	Unitary
Republic of Ireland	1.28	1.86	0.58	Unitary
United Kingdom	1.47	2.37	0.90	Unitary
Hungary ³⁾	2.35 ⁴⁾	3.92 ⁵⁾	1.57	Unitary

Note: 1) Mainland regions only; 2) Only the West German Länder; 3) County data; 4) Based on GDP per capita in 1980; 5) Year 2002.

Source: Calculations by the author based on various pages from: Regions. Statistical Yearbook 1979, 2003; Regional Statistical Yearbook 2003; Nemes Nagy J. 1987.

Figure 3.2 Share of federal and decentralized countries of the total population of Europe



Source: Author's compilation based on international statistical yearbooks.

Decentralisation, as evidenced by the processes of recent years, has become a very general phenomenon in Europe. Whilst, in 1950, about one-quarter of the population of the continent lived in federal or regional states, by the mid-90's two-thirds fell into this category. By the end of the first decade of the 21st century, more than two-thirds of the population of Europe (excluding the countries of the former Soviet Union) will live in countries where the sub-national administrative level, rather than the national level, plays the most fundamental role in managing the factors of economic growth. This quantitative change will be brought about by the establishment of new regional administration systems in two countries of high population: the United Kingdom and Poland (Figure 3.2).

In future, it will be the fundamental interest of the nation state to counter external pressure on its economic policy by strengthening the decision-making potentials within the country itself and by increasing the ability of its regions to assert their own interests. The traditional Keynesian practice of regional development is no longer applicable in this new paradigm; the regional policy of the state will be complemented by the regions' own policies. However, this change of paradigm cannot occur automatically, since regions at different levels of development have different interests in institutional regionalism. The poorest regions will still expect to benefit from outside assistance, national or international; they are more motivated by the traditional systems of assistance than by a possible wider scope of autonomy to be obtained in the 'Europe of the Regions' (Dente 1999; Keating 1998).

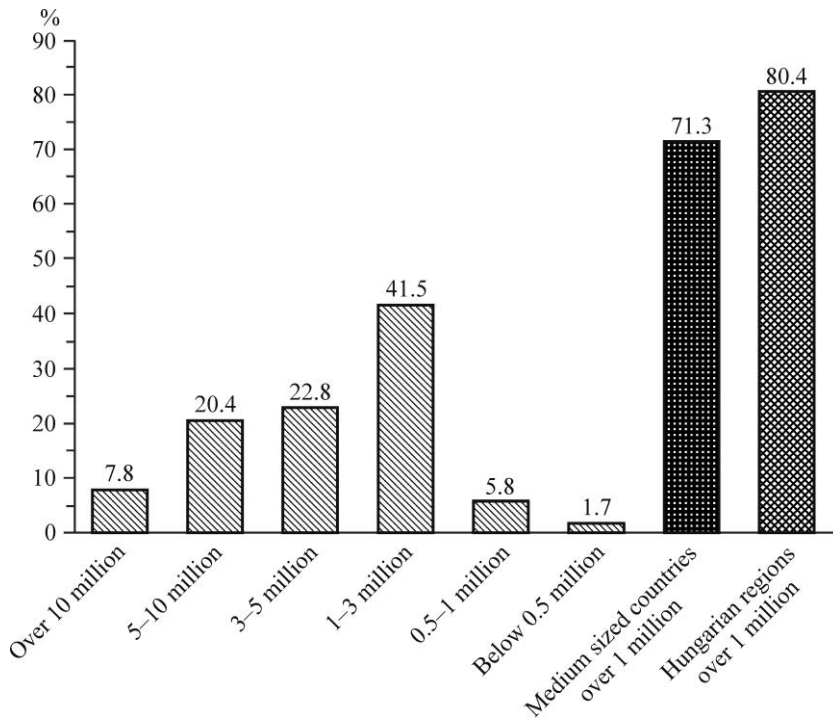
There are still significant obstacles, however, hindering the full-scale evolution of regionalism. National governments still play an important supervisory role in the relationship between the regions and the European Commission, and the poorest regions of Europe cannot fully assert their interests in the decisions relating to European integration, since they have fewer representatives in the various bodies of the Union. Furthermore, the competitive policy of the Union strengthens the motives of centralisation, and the regional policy of the Community cannot adequately balance the differences in competitive endowments. Federal Germany, however, is an excellent example of the fact that regionalism and the reduction of territorial inequalities can be reconciled at central government level also.

Parallel with the irreversible process of European integration, national governments will retain their key position in at least three areas. The first crucial task of individual states is to regulate and supervise shareholding capitalism. Industrial development will not be possible in the future without efficient national monetary systems, and company strategies will also be based on both domestic markets and on national regulations. The second important task of central government is to co-ordinate the national programmes for innovation and technological development, whilst the third national priority lies in the various tasks related to the labour market and to national industrial policy. Success in these two latter state functions greatly depends also on how effectively the sub-national administrative levels can contribute to the solution of emerging problems. In this way, yet again, regionalism is a precondition for the successful operation of the state, since macro-political goals cannot be achieved without the well-planned development of enterprises, human resources, education and training. Neither can a balanced competition be maintained on the market without the co-operation of the social partners. These factors can optimally be managed at regional level (Esterbauer 1992).

Conclusions

Today, regionalisation in Hungary is inevitable, and not because of the administrative system or of accession to the EU. What is at stake is, rather, the growth of the Hungarian economy, the modernization of the country and the future positions which Hungary and its regions can achieve in the European territorial division of labour. As we have seen, the Hungarian state was incapable of bringing about a paradigm shift throughout the whole of the 20th century, and neither central nor local authorities were interested in power-sharing. In this way, instead of genuine reforms, the various concepts for decentralisation achieved nothing more than insignificant modifications to the scale of redistribution, and this same attitude is visible even in the latest plans. In consequence, it is impossible for the current trends of the European economy to mesh with the current structure of the division of labour in Hungary – exactly as all attempts made during the last century failed. In fact, the emergence of a modern territorial economic structure can only be conceived within a completely new framework, and this territorial frame can only be the region, organized around strong metropolitan centres, endowed with political power and having its own institutions and financial autonomy. The size of the present planning and statistical regions of Hungary comply with European standards (Figure 3.3), and they are capable both of accepting new functional responsibilities and of using a transactional distribution system. In the 21st century, only regionalism can ensure modernization in Hungary.

Figure 3.3 Distribution of population in the European Union and Hungary on the basis of the population size of the regions (NUTS II), 1999



Source: Author's calculations on the basis of: Regions. Statistical Yearbook, 1999; KSH.

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Chapter 4

Impact of Regional Innovation Strategies on Regional Development

Tibor Dóry

Introduction

In the planned economy, one of the main features of the Hungarian innovation system was that its main institutions had been developed unconnectedly. Separation of the elements of the innovation system was apparent for example in the relatively well functioning academic institution network under the umbrella of the Hungarian Academy of Sciences, which is dedicated to basic research. It is true that the state and state-owned companies spent significantly higher amounts for research and development compared to the current situation shown through low research and development (R&D) expenditures. But these expenditures were mainly allocated for applied research and experimental development, which meant in many cases the imitation of Western products and technological processes. Notwithstanding, the major problem was that the main implementing agents of innovation activities, namely firms had weak links to the knowledge producers (i.e. higher education and research institutes) and generally were not interested in finding new ways to increase competitiveness and improve the quality of life.

Up to the late 1990's, the transition period to the market economy characterised by an unstable economic environment further deteriorated the connections between the elements of the innovation system. The most obvious signs of the profound decline of the innovation system is the sharp fall in R&D expenditures and the drastical reduction of research staff. All the main R&D indicators were declining in the first part of the 1990's. However, at the start of the transition period Hungarian R&D expenditures were quite high both in relative and absolute terms. At that time the total expenditures were standing at about 2% of the GDP, which corresponds to the current average of the 15 old Members States of the European Union (1.9% in 2002).

In the last couple of years, there have been some promising signals of the recovery of the Hungarian innovation landscape mainly due to large foreign owned companies. They have increased considerably their R&D expenditures in the second part of the 1990's and developed close relationships with their local suppliers and

also have established connections to higher education and research institutes. But these positive signs are small in numbers and restricted to some technological fields (e.g. telecommunications, pharmaceuticals).

Successful integration of the Hungarian research and innovation into the European Research Area requires further strengthening both of the national and regional innovation system which assumes the widespread understanding of the systemic approach of innovation and development of formal innovation policies. The systemic approach of innovation implies that innovation policies do not have to concentrate solely on enterprises or on the relation between innovation and research, but it should also concentrate on the configurations that characterise the territorial and regional production system in which they intend to intervene.

Taking the systemic approach of innovation as starting point, the article briefly discusses the lessons learned in more than 100 European regional innovation strategy projects and on a pilot innovation strategy carried out in the Central Transdanubian region. This gives some preliminary conclusions on how to build regional systems of innovation in Hungary and more generally in the new Member States of the European Union.

Systemic Approach of Innovation: How Do Regional Systems of Innovation Exist?

Economic geographers and regional economists have long recognised the importance of localisation, agglomeration and the regional economy in the wider dynamics of innovation, industrial growth and economic development. Since the mid-eighties they have been paying outstanding attention to the relations between technological changes and the regional innovation networks. Mainly empirical studies were born in this field, but several researchers have tried to work out a theoretical background for the identification, systematisation and quantification of the innovation networks. (Braczyk *et al* 1998).

Innovation is playing a more determining role in the increase of competitiveness of enterprises, branches of industries, regions and countries more than ever. Nowadays it is not only those essential innovations, which are embodied in products or services that have been developed in research centres and laboratories and successfully introduced in the market, but the continuous renewal plays an outstanding role in all walks of life. In this sense innovation can be considered as a successful exploitation of new ideas, the recombination of (existing) knowledge into new products and services emphasizing its process character. Nevertheless, technological development rarely can be considered as the consequence of the activity of lonely inventors or entrepreneurs, innovation is the result of a process with many players that seems systematic.

Recent research suggests that for economic growth, upgrading 'knowledge' and increasing technology diffusion within the given region are likely to be more effective. Despite the ever-increasing use of information and communication tools, geographical proximity is still highly significant in encouraging innovation. Face-to-face contact favours the intellectual, commercial and financial exchanges on which

innovation depends. In particular, when it comes to the transfer of knowledge, informal contacts, generally face-to-face, are viewed as more productive than any other means (OECD 1999).

Over the last decade, the notion of systems of innovation, local, regional, sectoral or national, has been widely used to map and explain the interactions between agents that generate and use technology. The ‘systems of innovation’ approach – a conceptual framework and not a formal theory – has developed and evolved since its initial appearance in the form of the ‘national systems of innovation’ (NSI) studies presented by Freeman (1987), Lundvall (1992) and Nelson (1993).

In their interpretation the concept of innovation systems is much wider than the inter-industry technology flows. Firstly, because it includes also the flows, which are not necessarily inter-sectoral, such as knowledge and information that occur within firms belonging to the same industry. Secondly, because it also takes into account the transfer of tacit and non-codified knowledge. Thirdly, because the innovation systems approach also considers flows, which occur between different types of organisations and institutions, including firms, agencies and government establishments.

On the basis of the concept of the national system of innovation it can be argued that regions within nations can also display a distinct system of innovation, which departs from the national norm and in turn are different from other regions. It should be stressed that localised systems of innovation are not everywhere. Indeed, there are many subregions, which lack the concentration and localisation benefits, because of low density; peripherality; lack of dynamic, innovative firms and institutions; and being simply knowledge and information poor.

Important elements of the innovation process tend to become regional rather than national.

Some of the largest corporations are weakening their ties to their home country and are spreading their innovation activities to source different regional systems of innovation. Regional networks of firms are creating new forms of learning and production. These changes are important and challenge the traditional role of ‘national systems of innovation’.

Regional systems of innovation should not be viewed just as one layer down from national systems and are more than just ‘proto’ national innovation systems. The regional innovation systems have two dimensions: the perspective of the firm and the institutional context that shapes innovation in the business environment. We can distinguish three levels in the business environment that are addressed by institutional action: overall economic development, interfirm networks, and the level of the individual firm.

The concept of supporting interfirm collaboration has become a central issue in regional development policy. In this sense it is important to pay special attention to the institutional framework. There are six types of innovation support provided by different actors playing key roles:

- management and innovation support;
- technology transfer;
- basic and applied research;

- education and training;
- finance for innovation;
- regional economic development.

However, no unique way exists to foster regional innovation capacities and to ensure the competitive advantage of regional firms. This probably constitutes one of the main policy challenges for European regions in economic transition. Concluding from the theoretical overview, the establishment and support of a functioning regional innovation system – including a favourable innovation culture, the identification of the regional innovation potential and the support of innovation networks – can be considered as an important element within a successful regional development strategy.

Lessons Learnt from the European RIS/RITTS Exercises

There is an increasing recognition that encouraging competitiveness – in an era of rapid global economic, technological and cultural change – requires key policy interventions at various levels. In the European Union there was an important transformation in the focus point of the Structural Funds in the last two decades, the main instrument for promoting social and spatial cohesion within the EU. It was the time when the Structural Funds were largely geared to the provision of ‘heavy’ infrastructures in the less-favoured regions (LFR), like roads, buildings, land reclamation, basic training and so forth. In recent years, however, the emphasis has begun to shift to ‘soft’ infrastructures, like innovation-support services to foster the exploitation of research and technological development (RTD). This new focus can partly to be explained by the fact that the Commission is now more intent on addressing not just the symptoms of peripherality, but also the causes, one of which is deemed to be a weak capacity to innovate. After 1994, in the new programming period of the Structural Funds, a new generation of regional innovation policy could be observed. The new regional innovation programmes also entertained a much broader understanding of what constitutes innovation, thus highlighting the role that a wide array of organisations can play in fostering innovation capacity (Morgan and Nauwelaers 1999).

In parallel with the main interventions of the Structural Funds, the Commission launched a number of pilot projects to explore ways to overcome structural difficulties i.e. economic and technology gap between the Member States, interregional differences and increased polarisation. In 1993 eight pre-pilot projects were launched to test and develop further the initial idea ‘Regional Technology Strategies’ in the field of innovation promotion at a regional level. The concept was renamed as Regional Technology Plan (RTP), which created a great deal of interest from other regions. This led the European Commission to publish an open call for proposals in 1995, to initiate pilot schemes for the implementation of Regional Innovation Strategies (RIS) funded under Article 10 of the European Regional Development Fund (ERDF). Also in parallel with this action, DG XIII launched a Regional Innovation and Technology Transfer Strategies and Infrastructures (RITTS – Innovation Programme within the Fourth RTD Framework Programme)¹.

In recent years more than 100 European regions² have started to implement and develop RIS and RITTS types of strategies. They were all encouraged to adopt a broad definition of innovation embracing managerial, commercial, technical and financial factors which enable a new or an improved product/process to be introduced into the market place; or enable a public or private organisation to introduce or improve service delivery to the general population. Innovation in such a context is not only about increasing economic wealth but it is also about improving the social well being (primarily through creating or safeguarding employment opportunities in the regions).

The evaluation of the exercise pointed out that the impact of these programmes contributed more to the development of the policy than was expected. The evaluation of these programmes have stated that the exercise had positive impacts on at least in four areas: (a) it encouraged a much-needed move towards strategic thinking for innovation-oriented regional development; (b) it offered mechanisms and incentives to create regional dialogue in geographically, institutionally or culturally fragmented regions; (c) it promoted the development of a concept of innovation broader than linear technology transfer, and helped to raise this higher in the policy agenda; (d) it assisted many regions to clarify the components of their innovation support infrastructures, and to develop actions to rationalise them and augment their visibility (European Commission 2001).

Experiences of the Pilot Innovation Strategy in the Central Transdanubian Region

In 1999 there was the first attempt in Hungary supported by the National Committee on Technological Development and the Regional Development Council in Central-Transdanubia to adapt the European RIS/RITTS exercise and develop a pilot innovation strategy for a particular Hungarian statistical-planning region (Dóry and Rechnitzer 2000). As every pioneering work it had ‘children illnesses’, and cannot be considered a finished task by any means. Unfortunately the formation of the steering committee that would have to play an important role in the course of implementation, as well as the provision of co-financing to the launch pilot projects did not happen.

The economic analyses, surveys and co-ordinations pursued during the course of the pilot programme in the Central Transdanubia region have shown that in the region (anywhere in Hungary outside the capital Budapest) the innovation infrastructure is incomplete and shows weak performance in comparison with its booming economy. There is a lack of research facilities with technological orientation, as well as diffusion and transfer organisations. The innovation achievements of the companies are also at a low level, but in recent years the corporate R&D activities have started to increase. The question of financing the innovation needs to be remedied as well, since it would be important – in addition to access to the central resources – to solve the financing of regional technological and venture capital; besides indirect state incentives (e.g. tax concessions, accelerated amortisation,

contribution to personal costs). The simultaneous initiative of multi-level measures is needed for creating a knowledge-based society:

- supporting the establishment of new technological research facilities (higher educational and private), adjusting themselves to the present, and then the future economic pattern of the region;
- efficient diffusion and technology transfer mechanisms (establishment of knowledge-utilising offices and innovation centres at universities and colleges) and supporting the establishment of (de-centralised) regional technology funds;
- assisting local and regional initiatives aimed at improving the innovation-consciousness and innovation culture, their long-term financial support.

The following lessons should be drawn from the pilot exercise: innovation is not listed nowadays within the most important action areas neither with entrepreneurs, nor with economic development circles in Central-Transdanubia. Unfortunately the majority of the organisations are more involved in their actual, day-to-day activities, and they turn their attention towards longer-term development only to a lesser degree. Investigations connected to the strategy justify this statement, as it turns out the rate of incomes arising from innovation is extremely low, this is in accordance to the low research-and-development expenditures of the region. After several regional workshops and dissemination activities the key stakeholders of innovation pointed out that they fully agree to and would welcome the implementation of a strategy, but they do not see backing from the adequate regional institutions and the money behind the initiatives.

Conclusions: How to Build Regional Systems of Innovation in the New Member States of the European Union?

The successful Western examples unambiguously confirm that the post-modern regional policies handle the assistance of the establishment and diffusion of innovation in a central place. In the economic literature it has been widely recognised for a long time that technological development plays a determining role in economic growth and wealth creation. The concept of regional innovation systems add such a framework for the development of regional innovation systems, which could be reinforced by public policy making tools such as the already mentioned RIS/RITTS strategies. Therefore, both the national and the regional governments should re-evaluate and rethink their conventional research and technology policies, especially in the course of worldwide and Europe-wide regionalisation ambitions. The specific problem of the new member state is that 'regions' in these countries are too small, to be measured by its geographical area, number of inhabitants and economic weight. In administrative terms these newly funded regions are not strong enough to develop an independent innovation policy. The institutional and economic dimension of the regions does not show a clear regional identity, because most of them were given funding only as a requirement of the EU to absorb and manage the structural and cohesion funds.

In the past years fairly widespread and varied measures and programmes have appeared worldwide and also within the European Union, regarding the de-

centralisation of science and technology and innovation policy, to strengthen regional production and innovation systems. In this paper we discussed one type of these programmes, namely the regional innovation strategy initiatives. The following success factors of these strategies can be determined:

- an innovation-oriented local or regional political control system with appropriate financial authority;
- a rich, in learning, knowledge transfer and qualification aligned institutional structure;
- intensive local and regional networking, enhanced by national and international co-operative linkages between regional actors which facilitate mutual knowledge exchange and enable collective learning processes;
- a creative and entrepreneurial-oriented human capital, which contributes to a continuous renewal of the regional enterprise stock.

However, the precondition of applying international experiences is that systems and methods of governmental activity should be re-thought, within the described frame-conditions. The surveyed innovation research results suggest that governmental subsidies must be concentrated to activities that foster the most efficient activity and growth of companies. More attention should be given in the future – in addition to supporting fundamental research, product development and research activity – to experimental production, to the support of quick and expansive market penetration of the high value added products, as well as utilising the technical and business services. This approach requires the establishment of new institutions, and the transformation of the old ones especially in accession countries. The implementation of regional innovation strategies must aim for the formation of regional technological agencies, de-centralised technological funds, research centres for business development and co-operation, as well as the development of partnerships, and supplier and client relationships between enterprises, public organisations and governmental agencies within the region. And it must also aim for the assistance of the establishment of co-operation networks at national, European and international levels. Perhaps the most important thing is that the governmental support must serve the co-operation between companies – considered as essential units of the regional innovation system – and ‘knowledge producing’ institutions (e.g. companies and universities, colleges, as well as research facilities).

If the central politics gets acquainted – for example through regional innovation strategies – with the characteristic features and the requirements of the individual regions, it will contribute to a better and more comprehensive understanding of the national, as well as the regional innovation system, and to the determination of the most efficient management methods. The local implementation should not be delayed any longer: formation of de-centralised regional innovation agencies and technological funds has to foster the increase of the regions’ innovation potential and output, and can assure their competitiveness.

It should be emphasised that the strategy and its partial programmes can be realised, and may lead to the formation of the regional innovation system only if they constitute an organic part of the regional development strategy. It means that

the innovation-oriented way of thinking and attitude ‘penetrates’ into the regional development programmes in the region.

It is important to stress that the key success factor of the strategy is the systematic implementation of the programmes not developing others as history teaches us. The tasks of the forthcoming period involve the following:

- the actors of the innovation system should recognise their tasks,
- the deficiencies appearing in the institutional system should be solved,
- the regions with development potential, that are still fairly recently neglected, should be given more attention,
- the financial means needed for the necessary investments and well-founded development targets should be made available.

Recent research suggests that regional learning is crucially important in order to increase firms' knowledge base, their competitiveness and their ability to be included in networks. Such processes should be embedded in a regional vision built by a broad participation of different actors and the regional public. Facing the particular context of economic transition and the forthcoming enlargement of the EU, raising innovation issues constitute an important step towards a sustainable regional development for regions in accession countries. Finally, we can conclude that these exercises will contribute to the catching up process of these regions, in the longer term to the integration of European research and in some ways they could contribute to the development of the European Research Area.

NOTES

¹ Although the administrative and financial responsibility for the RITTS project was the former Directorate-General XIII (Telecommunications, Information Market and Exploitation of Research) and that of the RIS projects befallen the former Directorate-General XVI (Regional Policy and Cohesion), the projects are jointly managed by the two Directorates-General. While the two types of projects are similar in their methodology they differ on a number of points, the main differences are the following: RITTS projects are designed to evaluate, develop and optimize regional infrastructure and policies and strategies for supporting innovation and technology transfer. RIS projects are designed to create partnerships among key actors in a region with an aim to define an innovation strategy for the region in the context of regional development policy.

² Besides the Western European RIS/RITTS exercises, 16 projects were launched in 2001/2002 to carry out innovation strategies in accession countries that are supposed to be completed by the end of 2003 (see *Innovating regions in Europe network*: <http://www.innovating-regions.org>). The main objective of these projects is to develop regional innovation strategies by following the RITTS/RIS project scheme and methodology. Each region is accompanied by at least one EU region that has already undertaken a RITTS/RIS project and formulated its regional innovation strategy and action plan. This approach ensures that participating regions will take full advantage of the experiences gained through the previous formulation of innovation strategies in partner regions.

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Chapter 5

The Driving Forces of Regionalism in Hungary

László Faragó

Introduction

The first question to be clarified in connection with (Hungarian) regionalisation is whether regions are originally given entities or not. Have they always been ‘there’ in which case we only have to discover their existence in order to map them onto institutional structures? Or are regions (arbitrarily) *constructed* by people in accordance with certain aims so that in certain cases it is simply assumed that regions are to be created? In other words, the question is to what extent (and in what respects) is regionalisation an ontological or epistemic issue and to what extent is it a constitutive process? Where and when is one approach more justified than the other? Does the existence of territorial (regional) levels have *per se* substantive implications? Or is it the case rather that regional institutions function as the ‘hardware’ providing the necessary framework for an improved and more efficient provision of certain functions and tasks? If regions are indeed social constructs then why are they created and by whom? Why exactly does this particular perspective on ‘truth’ assert itself? Is new regionalism capable at all of serving neo-liberal economic policy in Europe? Does the re-drawing of boundaries and the creation of new spaces of legitimacy contradict ongoing cosmopolitan endeavours based on economic rationality?

Two different conceptions have been offered to answer the above questions and to help interpret the process at issue. József Tóth summed up a possible approach, the one, which is most widely held in Hungary today: ‘regions are not to be created, but identified’ (in a lecture given at ‘Mindentudás Egyetem’).¹ The object and method of the inquiry can be quite varied. Most commonly, it is aimed at the natural environment or the mapping of the networks of economic units and social actors. Many geographers and ecologists seek to analyse and describe the physical (in particular the natural) environment in positivistic terms on the basis of natural law. Accordingly, they recommend the creation of ‘natural regions’. Representatives of classical regional science(s), i.e. those who believe in the existence of regional *science*, treat space as an independent variable. These authors assume space to be

quasi-objective and go on to circumscribe regions based on the alleged law-like characteristics of such a space. The Marxist-neo-liberal approach most commonly accepted in Hungary today identifies the existence or creation of economic spaces as the most important substantive aspect of regionalisation and the appropriate territorial framework of improved competitiveness. Just as urbanisation has been regarded as the territorial manifestation of classical industrial development, 'new regionalism' is now seen as the territorial consequence of neo-liberal and post-Fordist economic development.

I would argue that although regionalisation could conceivably have a material or 'factual' cultural basis, in reality it seldom does so. Regionalisation does not necessarily lead to the creation of administrative regions. In my view, the appearance of new regionalism in Hungary is not to be attributed to objective changes. In other words, regionalism is not the outcome of internal and organic (economic, cultural etc.) developments. Instead, it is a political process initiated in response to integration into the European Union. This process calls for the establishment of similar spatial structures and the adoption of identical development priorities in all accession countries of the 'Eastern bloc'.

Materialistic, Marxist (Neo-liberal) Regionalism

Marxist or pseudo-Marxist theories trace back changes in territorial structures and the imperative of a new type of regionalisation to the transformation of the economy and modes of production. Those of a markedly positivistic-materialistic persuasion seek to define adequate territorial structures as concrete representations of objective processes and want to adjust the superstructure, i.e. the system of institutions, to these processes. Others look upon regions as providing a more appropriate spatial framework for social and political processes, which are in turn determined by natural and economic conditions. New European regionalism that serves the interests of neo-liberal economic policy rests upon such theoretical foundations as well.

Marxism

Marx and Engels did not directly discuss the problem of spatiality. In Eastern European party-states, the scope of tolerated Marx-interpretations was very limited. Consequently, the problem of spatiality could not become a central issue. Moreover, Marxist schools of thought in Western Europe also tended to focus on other political and philosophical issues paying little attention to 'spatialogy'. At the same time, economic recovery in the wake of the Second World War made it increasingly clear that one and the same mode of production can itself generate spatial disparities. This raised questions that were more and more difficult to ignore. The rise of the post-modernist discourse, which in many respects rested on the traditions of French Marxism, provided a further incentive to a materialistic conceptualisation of spatiality.

Lefebvre (1991), who was affiliated with the intellectual as well as the political movement of Marxism, distinguished between *mental* and *objective* spaces both in an ideal and in an ideological sense. Mental spaces form the subject matter of philosophy and mathematics whereas objective spaces are those *physical* (natural) and *social* spaces, which are inhabited by all of us. *Social space* is abstract space, and yet it is objectively existing space that is *shaped by social and political forces* and reflects social relationships and conditions. Although (social) space is indeed a (social) product and the creation of space is a political process, subsequently space created in this way becomes the object of production as well. Every social arrangement (mode of production) forms space in its own image. Consequently, changes in social arrangements will also bring about fundamental spatial transformations. Lefebvre, as a faithful Marxist, attributes a decisive role to the mode of production in the shaping of social space, a role, which is crucial in re-generating labour and modes of production. By contrast, the significance of physical (natural) space is on the decline. Any kind of intervention in the world markets modifies space as well. At the same time, instead of directly influencing new spatial structures modern economy relies on politics to take care of this task. Lefebvre raised the question, in what ways are social relationships that form space are themselves determined by the material world? According to him, the physical world or natural environment are the 'primary basis', but not itself the cause. Instead, various layers and complicated networks are projected onto this foundation and thus appear in a material form (roads, telephone networks, etc.).

Post-modern authors (with a Marxist background), such as F. Jameson and E. W. Soja, as well as critical geographers, make similar assumptions: a new social and economic order is taking shape that generates different kinds of spatial processes. Jameson, for instance, holds that the most important processes in today's world *do not unfold in real physical spaces*, but rather in post-modern 'hyperspace'. In this *late capitalist global space* dominated by multinational companies, the aesthetic populism and spatial expansion of American culture appears to be overpowering. But, similarly to Lefebvre's account, one of the pre-suppositions of this account is that these processes are to be traced back to changes in the mode of production. Jameson's contribution lies in his reflections on how the nature of production under current (post-modern) conditions differs from those of previous times.

Soja (1989) begins with an analysis of ongoing processes of urbanisation, regionalisation and specialisation. He claims that industry continues to be the primary propulsive force of development throughout the world. This results in disparities in territorial/regional development:

'The contemporary period must be seen as another crisis-generated attempt by capitalism to restore the key conditions for its survival: the opportunity for gaining superprofits from the juxtaposition of development and underdevelopment in the hierarchy of regionalized locales and amongst various productive sectors, branches, and firms. ... More than ever before the spatial scope of these production systems has become global, but they also have a powerful urbanization effect through the local agglomeration of new territorial industrial complexes' (Soja 1989: 184–85).

Post-Fordist re-industrialisation unfolds selectively leading to the decline of some regions and the emergence of new territorial industrial complexes elsewhere. Although Soja himself claims that the regional approach may be capable of mediating and synthesising between the local and global levels, his book, in my reading, seems nevertheless to attribute greater importance to cities and interprets even regions as primarily metropolitan spaces.

With regard to the driving forces of regionalisation, theories with a materialistic or Marxist background seem to have run into a peculiar self-contradiction. I myself subscribe to a broadly Marxist account of globalisation and supra-regionally-oriented Europeanisation. I also accept that the capitalist mode of production has changed and is now located in a different kind of space. The point is, however, that this new kind of post-Fordist, late capitalist globalising economy does not ‘think’ in terms of regions interspersed between local and national levels. It does not aim at strengthening regional and cultural identities or at drawing up new regional boundaries. On the contrary, it seeks to dismantle all ties and boundaries that may hinder the free movement of capital and labour.

Movement in physical space does not necessarily accompany the ‘production’ and transmitting of signs, codes and patterns of consumption (Faragó 1991). Moreover, these signs, codes and patterns are not churned out in closed regional units of geographical space. The economic processes of globalisation do not promote the fragmentation or structuring of space. On the contrary, they lead to homogenisation and the abolition of borders allowing for the continued existence of only such national and regional differences that exist in an economically neutral sphere or are restricted to a domain that is of no interest to global trends. Neo-liberal economic policy and the European Union’s ‘development policies’ render these countries (nations), internal territorial units and their ‘human resources’ ‘consumable’ for globalisation. Nowadays, it is of crucial importance to distinguish between large-scale and small-scale spaces, those covered and those untouched by globalisation (Faragó 2003). Under these circumstances, the peripheral situation can often be understood as the lack of access to the network of globalisation. The main incentive for the development of backward regions is not solidarity but the creation of the physical and human pre-conditions of globalisation. The crucial issue for Europe is not ‘Europe of the regions’ but rather the place of the European region in the world!

Regionalism of ‘Existing Socialism’

Lenin and Stalin regarded regional-economic complexes as practical means of implementing policies adopted by the centre. Soviet theories of the so-called ‘rayons’ (districts) emphasised as early as the 1920s that production complexes do not emerge spontaneously but have to be created in a deliberate and planned fashion. In the course of this, natural and economic laws are to be taken into account as well. Kolosovskij (1969) proposed to define production complexes – similarly to today’s clusters – as co-operations of companies belonging to different sectors concentrated within a well-circumscribed territorial unit. Siomuskin (1977) called attention to inter-sectoral development as an important function of regional administration.

The following considerations played a part in the creation of economic districts in the Soviet Union (Krajko 1987):

- Every district is to specialise according to its social and economic circumstances
- In addition to specialisation, districts are to maintain a degree of complexity. Sectoral connections are to be promoted
- Every economic district is to have at least one centre, and possibly more than one
- Economic districts as social entities cannot be treated independently from natural and geographical conditions
- Ethnic boundaries are to be taken into account
- If possible, the boundaries of economic and administrative districts should not diverge from one another
- Settlement network, workforce management, history, traditions and cultural life of the given region are also to be respected

Based on these considerations, a multi-layered planning and economic (regional) system was adopted. Regional plans were prepared for large regions (e.g. Siberia), territorial production complexes, the *oblasti* and the federal republics as well. Krajko (1987) argued that this ‘regionalised’ economic development led to the gradual disappearance of territorial disparities in the Soviet Union.

Socialist regionalisation was permanently kept on the political agenda in Hungary as well. In his textbook on *regional development* written as early as 1954 (sic), Fürst explained that existing and thus analysable regions ought to be adopted as the *territorial units* of economic control and *planning*:

‘... Scientific inquiry leads us to recognise regional units as objective and genuinely existing phenomena. We have seen that, depending on our criteria, we can identify different regional units, with little overlap among them. Every state, however, requires a territorial classification that enables an efficient and advantageous organisation of public administration. ... It is now clear that Hungarian territorial divisions based on the old county-system no longer meet the objectives of the building of socialism and create a considerable amount of friction. This happens despite experts’ attempts to find a remedy to the most conspicuous difficulties by re-drawing old county boundaries’ (Fürst 1954: 10–11).

‘Regions must be contiguous geographical and economic territorial units. They are to possess shared and typical natural characteristics, adequate population density, appropriate organisation as well as a general and political culture. These features render them capable of optimally meeting the role ascribed to them by the national economic plan and enable them to raise not only their own but also the entire country’s living standards’ (Fürst 1954: 63).

Were we to replace in the text, written in 1954, the words ‘national economic plan’ with ‘national development plan’, ‘improved efficiency’ with ‘increased competitiveness’, ‘production complexes’ with ‘economic clusters’ and so on, we

would soon find that the current understanding of the role of regionalisation and regions does not significantly differ from that of the centralised party-state.

European 'New Regionalism'

In the 1960s and 1970s, regions were as little attended to in territorial and political studies written in Western Europe as in Hungary. From the 1980s, however, ever since the birth of the idea of the 'Europe of the regions', they have become the focal points of economic development and territorial planning. As a result, the internal spatial division of countries has become an important issue in the relevant international literature.

The strengthening of globalisation, the growing dominance of neo-liberal economic policy and European integration have reduced the scope of development policies at the national level and led to cut-backs in state investments. This in turn has resulted in the introduction and implementation of alternative theories and paradigms of development relying on traditional local and regional economies together with their connections and networks. Many believe that neo-liberal economic policy needs a 'new space' to be able to successfully oppose the rise of 'provincialism'. Therefore, Europe's new regionalism sought to *restructure space based on a new paradigm*. The idea was to exploit the advantages of a novel spatial structure without bringing back traditionalism. Functional actors can freely, i.e. without the intervention of the nation-state, decide on certain questions in the new (Utopian) regional spaces. By improving their competitiveness, the new regions can contribute to strengthening the European economy.

The founding father of European new regionalism, Keating (1998), also regards physical territory as a central factor in a spatial approach, a factor that can, in its own right, have an impact on economic activities, social integration and life in general. Keating seeks to steer clear of geographical determinism, which may seem to be implied by his account, by adding that physical environment does not determine but only creates the pre-conditions of social interactions. Physical environment alone, it is claimed, will not explain *space as a political factor*. Taken in this wider sense, Keating holds space to be a historically changing political construct. It is an entity created as a result of the interplay of environment, economy and political institutions. The region as a special spatial category is, for Keating (as well as for Richardson, Hoover, Isard, etc.), an elusive form of space. He thus tries to capture regional categories of different sizes and levels through the regions' economic, social and cultural aspects. In other words, despite the fact that Keating views physical space (territory or place) to be one of the underlying causes of social and economic structures, he also treats regions as divisions associated with the 'utilisation' of space. He believes that the physical aspects (area and boundaries) of these regions can be identified. Keating describes the region as an *open political system* rather than as a self-defined unit. Regions are partial social units that functionally interact with other territorial levels. Thus regionalism is not an alternative principle for organising the state. The regions cannot take over functions of the state. Their existence impacts the provision of state functions and modifies the power structure of the nation-state.

‘Regions are seen ... as social constructs, within territorial boundaries... the social, economic and political content of regionalism varies according to the outcomes of political processes. It is a contested concept, both in its spatial limits and its social content, since these condition the distribution of power, the weight of social interests and the allocation of resources’ (Keating 1998: 13).

The new paradigm is intended to rest on territorial solidarity, territorially-rooted planning and action. At the same time, the implementation of this paradigm depends crucially on the redistribution of decision-making power within the country. This has not caused problems in decentralised countries in which regions are already integrated into public administration and where regional institutions possess the required scope of influence. Meanwhile, restructuring power has run into problems not only in Hungary (but also in new member countries of the European Union). The same problems have surfaced in Western European countries where the European Union has demanded the establishment of a new regional level. Central (nation-state) governments have transferred competencies and resources to the supranational level and lost some of their power to the private sphere as well. Now it finds itself yet again confronted with new actors, namely the regions who themselves strive for new competencies and resources. An unforeseen development is that nation-states seek to set off the losses inflicted on them, by supra-nationalism and regionalism, by assuming a significant role in the creation of regional institutions, the development of partnerships, financing, etc. all of which entails the preservation of positions of control and power. The European Union has the greatest influence on the creation of a new institutional system in ‘cohesion countries’ since there it can make its subsidies conditional upon the realisation of the required institutional reforms. But these regions will then not be the outcomes of bottom-up development and will not spontaneously come to life. They will not determine their own identity, even if they do become stronger. They will be fitted into a strict hierarchy and operative system – after all, they have been created to provide certain functions in the first place!

Economic driving forces of globalisation gain control of politics in more and more places. At the same time, it is becoming harder and harder to deny that European new regionalism has been nothing but a naive attempt to influence the economy at the territorial level. In practice, however, precisely the opposite has taken place: regional policies, that are becoming more unambiguous, are beginning to serve the interests of neo-liberal economic rationality. Improved regional competitiveness is a means intended to enable various areas to connect with the global European economy. These are areas, which lack the conditions to ensure external profitability that would not be able to do so on their own. Having met, however, the minimum requirements to realise this goal, EU regionalism seems no longer motivated to pursue it any further. Traditional regionalism (the re-appearance of which is an even more recent development) often accused of provincialism, can promote decentralisation, serve regional interests and provide genuine alternatives much more effectively. It conflicts, however, with current aspirations.

Laying the Groundwork for an Alternative Interpretation of Regionalisation

Space is everything and nothing. It is not an object, but rather a source of knowledge that, among others, constitutes objects. It does not determine objects in their material reality, however, since it only gives them their form. Our conception of space is dominated by a peculiar duality. Space is pure perception and intellectual construction independent from objects ‘out there’, on the one hand, and it is the *sine qua non*, form and framework of every existing object, on the other. In other words, it is both an abstract (‘subjective’) regulative principle, an *a priori* idea, and also a concrete (‘objective’) practical construct built out of elements of our perception (Kant 1981).

Space (as a substance) taken on its own is an ineffable, imperceptible empty *form* of homogenous ‘density’ that orders and also enables us to order phenomena. Empty space is unstructured on its own. There are no distinguished points in non-existent space around which phenomena would necessarily organise themselves or around which they could be organised.

In practice, however, there is no empty space. Existent space, beyond noumenon, is full of qualities, values, Utopias, judgements, aspirations, etc. Space given to us is the order of the co-existence of all of the latter constituting their physical and/or virtual *network*. Space is continuous. Therefore, its co-existent elements necessarily interact with one another. The complex phenomenon that is most often referred to as ‘territorial (regional) impact’ implies a necessary interaction resulting from the fact of co-existence. One can observe a peculiar co-existence of the most varied factors in various spatial units – thus in regions as well. These create special conditions and opportunities for interaction among the relevant factors. Not only do natural and economic circumstances differ from one region to another, but also each region may assess and treat natural and economic realities in different ways due to existing cultural and political differences and their commitment to these. This in turn can also have an impact on economic units operating there.

Post-structuralism and post-modern authors (e.g. Derrida, Lyotard, Thom) do not approach space in a Newtonian framework, but regard it rather as a *political-practical construction*. On these accounts, space is meaningful only as lived in/living space and not as an autonomous domain independent from the subject. *Space* and its elements (e.g. the region) are not impersonal but rather *interpreted categories*.

Those who emphasise the role of language and the linguistic *a priori* (e.g. Wittgenstein, Searle) call attention to the fact that language does not merely serve to describe facts. The *use of spatial notions itself is capable of shaping space*, spatial institutions and the concomitant utilisation of space. One use of words/codes (e.g. room, street, market, town, etc.) is to describe divisions of space in accordance with actual ways of ‘using’ space. In everyday usage, these words can deciphered, interpreted but also *enable us to define*, interpret and introduce *new ways of using space*, and even to create them in reality. Words referring to space do not possess *unequivocal validity as meta-codes*. They do not have a ubiquitous prescriptive

sense. There only exists a reading or interpretation of them in accordance with a specific usage developed in practice. In other words, in a country such as Hungary where people lack personal spatial experience of regions and lack regional identity, the meaning/content of 'region' is fixed and institutionalised through linguistic communication which in turn is governed by academic theorising and political will (intentionality). This is why it is unfortunate that the concepts of 'region' and 'regional' are used in an ambiguous fashion in Hungarian academic terminology. In connection to this, the cause of regionalism is particularly disadvantaged by the fact that political rhetoric and the practice of regional development find themselves at loggerheads with one another. Since region is not an element of reality open to direct experience, and today it is not part of our lived world either, it would be especially important to provide a better scientific foundation and share a more inclusive linguistic practice. Without this the establishment of new types of regions will be unlikely. There is no serious public debate conducted about regions at present, but instead only one-way communication concerning the implementation of this idea. However, this process cannot generate inter-subjective knowledge and shared commitments. For this reason, the actors concerned are likely to continue to question the partial knowledge asserted through the use of power. Regional institutions established in this way cannot look forward to widespread acceptance, not even in the long run.

Participation in the shaping of space by means of linguistic communication is unequal. There are always more active persons and groups. The overwhelming majority, however, only consumes and implements new phenomena. In Hungary, for instance, the world of academia has played a significant role in highlighting the importance of spatiality. It has contributed importantly to institutionalising the notions of regionalism, region and their concomitant representations. Politicians followed suit by adopting the pertaining notions, which, however, has altered the content of these notions as is customary in political practice. Many participants in the ongoing discourse seek to interpret the concept of region in a way that it can be made to correspond to their own conception of space. Contrary to the original intention of European new regionalism, regions have not become new repositories of power, but are 'used' instead by former actors (national governments, sectors, counties, political parties, etc.) as a new platform serving to articulate their interests. Representatives and experts of the European Union try to transmit the idea of homogenised space that they are more comfortable with. By contrast, politicians operating at various levels support the creation of regions in a way that does not reduce their competencies and resources but serves their interests instead.

Regions as artificial and administrative components of spatial structure do not necessarily stand for objective processes. Rather, they are quite often representations of space created as outcomes of social discourse conducted in a given context. Discourses, however, must be brought to an end at some point. At that particular point, one of the feasible solutions will be identified, accepted and elaborated on. Spatial structure rigidified in the form of a regional system of institutions will at that moment assert itself as a 'violent' force imposed from the outside on the social and economic processes that generate constantly changing, kaleidoscopic spatial

formations. Subsequently, however, actors will adjust their activities to this given 'fact'. This will make it possible to identify the resulting regularities.

Territorial boundaries are rooted in social practice and political discourse, and constitute symbols and institutions (Paasi 2001). In accordance with their usage of space, people (artificially) circumscribe spaces; raise walls and fences, to draw political and administrative boundaries. In short, they *segment space* for the purposes of identification, separation, to handle and control various relationships and to defend certain values and interests. Such divisions of space are intended to provide a better framework for people's actions and increase the efficiency of their spatial existence. Alternatively, spatial divisions may be used to render social or physical phenomena more transparent, classifiable or easier to handle. This creates the duality of the internal and the external, that of acceptance and exclusion as well as opportunities for transgression and criticism. Boundaries are the zones of acceptance and rejection creating two different perspectives and *two spaces of legitimacy*. Demarcation of this sort is only necessary if it serves to articulate power structures or *promote a certain objective*, i.e. when differentiation, separation or discrimination promises to be profitable or when something is to be defended against others and something asserted against those excluded. When drawing regional boundaries, therefore, it is important to take into account that this act involves the creation of yet another boundary and yet another hierarchical element. It can generate new conflicts hindering the unfolding of various natural processes. More and more authors argue (e.g. Paasi, Massay) that spatial elements are in many cases not strictly circumscribed territories, but rather open social and political spaces.

Depending on what one's original intentions may have been, regions can be created in the continuously changing cosmopolitan space of new interactive processes ('space of flows') as well as in structures constituted by historically formed traditional and particular places ('space of places', Castells 1999). The operation of regional institutions, without local governmental authority, pursuing the goals of economic development and promotion should not necessarily be constrained by fixed boundaries. The scope of institutions that operate in focal points of the relevant processes and are entrusted with appropriate competencies can be flexibly adjusted to current developments at any given time. In this way the constraining influence of fixed boundaries can be avoided. Concentrating on tasks rather than boundaries enables the development of more flexible networking activities. By contrast, a regional structure covering without overlap the entire country, i.e. 'space constructed out of places' in the traditional sense can be required in many instances as well. This is the case for instance if regions are integrated into public administration, figure as statistical units, acquire a mediating role in the re-distribution of resources, provision of various services and the maintenance of institutions or planning systems. Regions in this sense can assume traditional roles. They are better suited to reproducing territorially-based communities and values and can strengthen shared identities. On the other hand, they are less capable of furthering integration into new processes (of globalisation).

It follows that micro-, meso- and macro-regions are not objective physical categories of space. Regional phenomena are not the products of the ubiquitous substance of spatiality. They do not even represent continuously changing objective processes of varying spatiality. Rather, regions are political institutions. The upshot of this is that they do not necessarily exist anywhere and at any time. Nor can they be given a uniform appearance. Occasionally, regions can be identified by means of their already existing content. But it is much more common that they are to be regarded as specific structural units of space serving a certain purpose. Regional divisions and classifications of space demonstrate the overall instrumental character of regions. Regions can also constitute objects of scientific inquiry or function as vehicles for various kinds of intentions (exercise of political power, control, organisation of markets, etc.). Regions and regional institutions are social constructs. They are created by means of a linguistic process. That is to say, they are defined through social and political discourse. It is their collective acceptance and use that legitimises them and renders them part of the reality we perceive and the space we live in.

Regions do not possess per se substantial content, and do not exist as independent entities unless their populations have special shared characteristics (e.g. language, culture, historical tradition and special economic activities). Such populations tend to live in closely-knit geographical unity differing from their environments and striving to preserve and develop their distinctive communal traits. In other words, such units are distinguished by their capacity to reproduce special social and economic processes. Their shared values and interests lay the groundwork for the formation of a common will and the pursuit of collective action. In Hungary, the space defined by cultural and spatial identity of this kind is the nation-state. If, by contrast, the country were constituted by several units of this kind, regionalisation would indeed have to further develop territorial self-governance and the establishment of elected local governments. But this is not the case. Lacking such units, however, it is only feasible and rational to create large regions and establish regional local governments whenever problems and tasks arise which cannot be solved efficiently at lower levels. In other words, large regions are only needed if problems and tasks cannot be efficiently resolved at lower levels and this is also recognised by actors at the lower levels themselves. Micro-, meso- and macro-regions (e.g. micro-regions, counties, large regions) created in this way can truly serve to protect shared values and interests, and enable the formation and effective implementation of regional policies.

Top-down establishment of formal regions and their institutionalisation (deconcentration) is typically called for in the interest of meeting central objectives more effectively. In this case, it is necessary to only re-organise state authorities and offices into deconcentrated structures. Regionalisation based on the principles of subsidiarity is aimed at decentralisation, which means a genuine redistribution of power. It lies in the nature of power that central organisations resist the delegation of their decision-making and political competencies. In short, genuine decentralisation can only come about as the result of domestic power struggle.

Dilemmas of Regionalisation in Hungary

In Hungary, the public administration system underwent three fundamental changes in the twentieth century: after the First and Second World Wars, and in the wake of the change of regime in 1990. The first of these changes resulted in the radical transformation of territorial structures, whereas the latter two mainly involved ideological and political alterations. In addition, there has been no end to the blueprints of reform of spatial structures and regionalisation, but no significant changes have taken place apart from the reforms associated with the above-mentioned historical turning points (Hajdú 2001).

The Treaty of Trianon reflecting the (seeming or genuine) strategic interests of the victorious powers fundamentally altered Hungary's territorial structure. The agreement reduced the country's territory to a third of its original size and thereby altered the whole settlement network, county boundaries, ethnic proportions, etc. leaving practically nothing as it had been before. Various theories and recommendations for regionalisation appeared during the inter-war period. Most of these proposed to divide Hungary into seven regions. None of these were actually put into practice, however. Apart from a minor change in 1929, the administrative system laid down in 1923 remained unaltered. Every regional conception emphasised that ethnic and cultural considerations had lost their relevance within Hungary's new borders and therefore *other rational considerations* had to be taken into account.

The Paris Peace Treaty after the Second World War reinstated the 1937 borders. As a result, the system of councils (soviets) imported from the Soviet Union transformed the 'substance' of the already existing spatial structure rather than its actual outlines. Only few corrections were made to this structure at the time. *Political changes* to the institutional system of the 'Soviet bloc' followed *external directives*. The changes were geared towards *uniformity* at the expense of national characteristics. The completion of the political-economic transformation (1950) saw the emergence of the county system still in place today. After this, only minimal alterations were made to the Hungarian system of public administration. Although proposals for socialist regionalisation (so-called 'rayoning') were permanently on the agenda, these were unfailingly turned down. The proposed regions were never integrated into Hungary's public administration structure.

The Communist Party's political will and the campaign of forced 'socialist industrialisation' dominated regional planning in the 1950s. After 1956, however, experts prepared several regional studies and plans as well. Among these, the Regional Plan for Balaton received an international distinction (the Abercrombie Prize). In accordance with former principles, the Blueprint for Settlement Network Development in Hungary (1956) identified three central regions (Budapest, Szolnok, Székesfehérvár) and six peripheral regions (Miskolc, Debrecen, Szeged, Pécs, Nagykanizsa, Győr). The National Plan for Settlement Network Development accepted in 1971 gave the highest central ranking to large towns where the agglomeration (region) comprised at least 1-1.5 million inhabitants. In the same year, the preparation of medium-term development plans for the six economic

districts (the territorial units of central planning) had begun. Regional development covering the entire country – in present terms at the NUTS-2 level – had ended in 1973. Subsequently, regional plans were only elaborated on for functional district regions (the Balaton resort area, the Miskolc and Pécs agglomerations). In 1985, the Hungarian Parliament passed legislation on the long-term principles of regional and settlement development. This act of parliament was in conformity with European trends of the time as well. In accordance with the principles specified by the legislature, the preparation of development programmes for economically backward regions had begun. This was followed by the implementation of these programmes supported by the Regional Development and Organisation Fund. In other words, at the time of the change of regime government programmes were already under way to assist the recovery of areas classified as economically backward (at NUTS-3 level in present terms). After the change of regime in 1990 this work, although re-adjusted to integrational principles of the European Union, has been continued without any significant interruption.

In summation, the creation of regions with primarily economic functions to provide certain services at higher territorial levels was continuously on the agenda in the socialist system as well. A significant role was to be allotted to central planning and regional development subsidies for the control of these regions. Ultimately, however, these activities stayed within the scope of regional development and planning and the regional level was never introduced into public administration. Piecemeal adjustments to pertaining norms of the European Council and the EC/EU began in 1985. The measures taken were forced upon Hungarian actors by practical exigencies. At the same time, a general consensus concerning regional development or the desirable scope of regional plans and regionalisation is missing to this very day.

Today, the European Union is the main source of expertise on regionalisation controlling and concentrating the pertaining discourse. The fact that the European Union itself lacks an unequivocal notion or model of what exactly is a region creates a degree of uncertainty. The *ideal image* of the region is constantly changing in the European Union as well. In addition, each national practice diverges from this ideal according to the actual context. Academics, everyday politics and the media are mainly concerned in Hungary with *conveying* the ideal picture and pay little heed to finding a *specifically Hungarian solution* within the European framework. A joint European intellectual endeavour to conceptualise the space of the European Union is bound to yield different results than isolated national efforts aimed at understanding spatial segmentation.

The EU's 'official standpoint' is well known from various political and legal documents. Interpretations of these documents dominate Hungarian literature as well. The pertaining studies typically suggest that the creation of NUTS-2 regions must accompany Hungary's accession to the European Union. Opinions only differ insofar as some would rest content with the creation of regions for the purposes of planning, development and statistical surveys, while others call for the establishment of regional local governments as well.

Regionalism can unfold in three main domains in Hungary (just as anywhere else): (i) economy, (ii) culture, and (iii) politics.

(i) Marxist and neo-liberal thinkers in Hungary agree with international representatives of the same approach in that they also trace back the emergence of the *new territorial level to objective processes in the economy*. It is particularly common that advocates of these views regard this new level as a necessary platform for a modern (cluster-like) management of the economy. In Hungary, however, the disappearance of large companies of the socialist economy led to the disintegration of traditional economic relations. New regional economic co-operations (networks, clusters) have yet to appear. Existing connections cover territories that differ from one (sub-) sector to the next and sometimes even from one company to another. Such connections do not result in the emergence of economic regions with at least some roughly overlapping of borders. Only some functional districts constitute an exception, e.g. the Balaton holiday resort area. To sum up, Hungarian regionalisation is not supported by objective processes in the economy.

Nor can Hungarian regionalisation be based on developmental disparities among the regions and the tasks ensuing from these disparities. Inequalities of development within existing large regions are greater than those among the regions themselves. We find internal peripheries within the developed regions and backward regions sometimes have dynamic centres. There are certain areas that can be classified as backward in comparison to the national or European Union average, but have displayed dynamic growth in their own terms. And there are others that fell back to this backward level as a result of economic recession. These findings lead several regional development experts to argue that in today's Hungary the most adequate level for interventionist regional policies is the micro-region. By contrast, economic interests of already established planning and development (NUTS-2) regions can only be understood from one perspective: the *acquisition of the greatest possible amount of external resources* in the competition among regions. The distribution of already acquired resources among counties, micro-regions and settlements undermines even this seeming unity of interest. Redistribution generates internal competition, and even more commonly, political lobbying.

(ii) The basis of genuine regionalisation in Europe is to be sought in cultural communities. Cultural differences among European nations and countries are considerable. Relative to the extent of such differences, Hungary after the Trianon Peace Treaty can be called a fairly homogenous country in cultural terms. There are regions based on linguistic and/or cultural territorial units in Belgium, Spain, the United Kingdom, Slovakia or Romania, but these do not exist in Hungary. No marked territorial differences in national, ethnic, religious or linguistic terms will be found in Hungary. *Nor is there a shared regional identity*. That is to say, whatever territorial and cultural differences there may be, they do not correspond to NUTS-2 regional levels. Despite the varieties of landscape, there are no significant differences in work culture or ways of life either. Even patterns of existing disagreements concerning lifestyles and attitudes towards the global economy reflect the opposition of the so-called urban (*urbánus*) and populist/rural (*népies*) traditions rather than anything else. These differences in personal preferences or political

commitments may in some cases correspond to differences among settlement types or micro-region types rather than regional divisions. In other words, disparities in today's Hungary between the capital and areas outside the capital, between towns and villages, between urban and rural micro-regions are far more significant than other kinds of territorial inequalities. Thus territorial identity or commitment to specific (territorial) policies is also much more likely to correspond to these territorial units.

NUTS-2 regions *do not appear on the cognitive map* of ordinary Hungarian people. That is to say, they are not only absent from maps of orientation and identification, but they lack metaphorical meaning as well. Dual oppositions within spatial categories such as The Great Plain vs. Transdanubia, capital vs. countryside carry, in comparison, a lot more symbolic content. Names of many settlements offer an additional source of identification and not only for those living there. Settlement marketing hopes to draw on precisely this factor.

(iii) Hungary is currently subject to *pragmatically-oriented political regionalisation*. The main objective of this lies not in the strengthening of autonomous regional politics or increased decentralisation and not even in the improved efficiency of governmental policies. It is motivated instead, in the wake of Hungary's accession, by regional and cohesion policies of the European Union and the logic of the utilisation and distribution of the allotted resources. Given this European framework, it was not the Hungarian state and even less Hungarian society that defined the status and role of various territorial units and new regions in Hungary's social and political order. This role was assumed instead by the European technocracy that, as generally bureaucracies tend to do, makes its decisions on the basis of technical rationality. Conceptual frameworks and operative systems developed against a general backdrop of insufficient democratisation have been adapted to Hungarian circumstances in response to external pressures. Apart from a handful of regional initiatives, regionalisation is essentially a top-down process controlled from the outside. Neither are 'bottom-up' initiatives, which are based on local co-operation, driven by the recognition of genuine interests or consciously adopted value preferences. Instead, such grassroots initiatives simply seek to anticipate certain developments in order to gain competitive advantages. In summary, the renewed transformation of territorial public administration and that of the internal structure of power – similarly to changes following the two World Wars – has been initiated from the outside. The driving forces of this transformation are new economic and security interests. Of course, in the present case international treaties and a different ideology form the basis of the new segmentation of space and not peace accords as they did in the past. Economic internationalism (globalisation) promotes the free movement of capital and labour. Joint action to promote shared aims is supported by means of newly available subsidies.

At the same time, it seems that regionalism could not fulfil the hopes it first aroused. Thus, doubts have surfaced concerning the future of regionalisation. The internal structure of the enlarged European Union consists of nation-states and interest groups constituted by these states. Once again, territorial divisions within states are increasingly regarded as each country's domestic affair.

The Hungarian political elite and governments have been happy to strengthen the functions of national governments and to re-nationalise regionalisation. They are willing to offer a helping hand in continuing regionalisation without jeopardising the interests of central control. Accordingly, new regional institutions are also integrated into the vertical hierarchy. What would be truly needed are not mere platforms where national and local actors could meet, but platforms where independent political actors could meet. New regions can only become active agents, rather than mere objects of social and economic processes, once they acquire autonomous decision-making competencies within their borders.

A crucial issue with regard to the future of Hungarian regionalisation is whether the accession of the ten new member countries will signal a turning point in the regional policies of the European Union or not. The question is whether the idea of regionalisation has already penetrated Hungarian political discourse deeply enough for the creation of local governmental regions to begin even if external pressure to this effect decreases.

The driving forces of new regionalisation in Europe seem to be running dry. Meanwhile, it is hard to discover, behind all the political rhetoric, if there is a true commitment to decentralising the structure of public administration. It appears much more likely that once the European Union's cohesion (regional) policies change, regionalism will begin to lose ground in Hungary as well. Moreover, new regionalism, as a strategy deployed by economic forces of globalisation against national governments and the rise of localism, can end up achieving the very opposite of the desired effect. It is therefore not surprising that the strengthening of territorial identity and the preferential treatment of territorial interests are branded as negative protectionism and provincialism. The likely result is that forces that once initiated new regionalism are now going to withdraw their original support.

The European Community and its successor the European Union have never become the 'Europe of regions'. The European Union continues to exist as an alliance of nation-states. Decision-making is still dependent on intergovernmental bargaining. Increasing the EU's size to include 27 member states reduces the chances even further that the regional level will assume a greater role in the EU. Today's EU is clearly divided, though not by a literal wall or curtain. Debates are being conducted among groups of countries and are aimed at the representation of national interests. The task is to create a 'Europe of Europeans' to replace the 'Europe of the US' and the 'Europe of the Soviet Union'.

On the basis of information made available on the reform of cohesion policies until March 2004, the future role of regions is still highly uncertain. The European Union has failed to make its position clear. The rhetoric is still dominated by the watchword of territorial solidarity. At the same time, one hears and reads less and less about actual measures taken to promote regionalism. *Member countries are increasingly becoming the focal points of cohesion policies.*

In connection with the Hungarian National Development Plan (NDP) prepared for the 2004-2006 period, experts in Brussels have emphasised the need to continue decentralisation. However, in practice they seem to have stressed the importance of transparency and accountability at the expense of regionalisation. As planning has

reached more and more advanced stages, regional considerations and interests have been asserted less and less vociferously. Brussels, not without a reason, has called attention to the insufficient development of the regional level. At the same time, on the domestic stage it has been found, once again, that the central government is not ready to delegate competencies unless expressly forced to do so. The NDP and the Communal Support Framework Plan prepared on the basis of the NDP consist exclusively of horizontal programmes. Its name notwithstanding, even the Regional Operative Programme (ROP), put forward only to save appearances, is such a horizontal blueprint. During the preparation of both the NDP and the ROP it was palpable that the European Union does not attach great importance to the strengthening of regions and only assigns an executive role to them. It is also clear that the Hungarian government is not committed to a vision for the regions' future that could guide its actions in this area. The NDP will not be able to reduce regional disparities and the ROP even less so. In fact, their implementation will only increase regional differences.

The preparation of a new generation of national development plans has just begun. At this point, it would be essential to clarify the role of regions and to take a stand in favour of the strengthening of the system of regional institutions. However, officials in Brussels have failed once again to express their support for assigning a greater role to regions. Those consulted are hesitant and can often be heard to give contradictory answers. These circumstances in the initial stage of planning as well as the comments made by policy-makers suggest that once again no independent regional-level programmes will be produced. What is more, this time a regional operative programme will not be developed, not even for the sake of appearances as before. Today's system of regional institutions will be assigned a 'subcontracting' role in the preparation of new central plans and their future implementation. Regional development agencies are functioning increasingly as deconcentrated institutions of governmental offices. The independent decision-making competence of regional development councils is reduced to the distribution of scarce decentralised resources. Hesitation on the part of both Brussels and national governments can shake the faith of even the most hard-boiled representatives of regionalism.

Conclusion

The change of regime in 1990 and Hungary's accession to the European Union *have not been accompanied by a paradigm change* with regard to the perception of regional development and the driving forces of regionalisation. Past theory and practice of socialist 'rayoning', districts and regions in Hungary have not been all that different from the basic idea of 'European new regionalism'. Even the idea that 'new Europe stands in need of a new spatial structure' can be shown to be of Marxist origins as it derives the necessity of a new spatial structure and new spatial units from changes in the capitalist mode of production. Both approaches regard the region as constituting the territorial framework for modern factors of production. It is assumed that this framework is objectively given in the surrounding world and

can thus be studied and described. It is also argued that in places where such a framework was missing the system of regional institutions was to be created and accommodated within administrative systems. Socialist theories have always emphasised the objectivity of economic laws and space representing them as effective causes (*causa efficiens*). European new regionalism, by contrast, views regions as the means to accomplishing final causes (*causa finales*). At the same time, in the course of planning and implementation, new regionalism strives for quantification and the material accountability of the results achieved.

If one regards the European Union as the joint economic ‘venture’ of national governments (European multinational companies), then considerations concerning economic development and competitiveness are to be given priority in the design of internal spatial structures as well. These considerations require the creation of a unified market unbounded by national and regional boundaries. It is difficult to find economic motivations for regionalisation in this globalising supra-national hyperspace. Bottom-up political and cultural regionalisation can help defend against precisely such trends. The latter kind of regionalisation runs, however, counter to the ideal of new regionalism.

Regionalisation is not an objective process. Nor are Hungarian regions the outcomes of such a process. Rather, they are political institutions shaped in political (social) discourse. It is therefore a matter of arbitrary decision what type of regions will be created in Hungary and what competencies will be assigned to them. Globalising forces do not ‘think’ in terms of traditional small-scale spatial categories. The driving forces of regionalisation within the European Union also appear to become increasingly weak. Consequently, whether the presently existing development-planning-statistical regions will be integrated into the Hungarian system of public administration or not, mainly *depends on the outcome of the domestic discourse (power struggle)*. In the last hundred years, reforms favouring the transformation of spatial structures have invariably failed in the absence of external pressure. I believe that without external support (motivation) the forces behind regionalisation in Hungary are once again too weak to achieve the creation of local governmental regions and the development of a more decentralised state administration. The establishment of regional local governments would only be possible within the framework of a comprehensive reform of the state administration and central budget. Such a rationalising measure would entail the weakening of central and sectoral powers, the abolishing of counties and the strengthening of micro-regions. I do not find this prospect feasible today. All the more so, given that putting an end to Hungary’s negative discrimination within the EU and the affirmation of national interests calls for unified national will and action. The two-fold task of preserving the results of regionalisation and empowering *today’s regional institutions as genuine actors in regional development* will present a formidable challenge to Hungarian regionalists in the next few years. In order to realise these goals it is essential to reduce governmental participation in regional development councils and increase the amount of resources to be spent in local competence. Current redistributive and mediating tasks are to be replaced by genuine regional functions. Should counties continue to exist, those calling for

territorial local governments will have to ensure the effective functioning of county-level local governments as well.

NOTE

¹ ‘University of Omniscience’, a widely publicized series of popular lectures given by experts from various fields (translator’s note – A. Sz.).

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Chapter 6

Hungary of the Regions: Utopia or Ultimatum?

Ilona Kovács Pálné

The imperative of regionalisation is being treated as a commonplace today in pertaining literature as well as by governmental and political documents. Any attempt to question its validity is seen as a sign of backwardness. The programme of the current government, in office since 2002, has declared the creation of self-governmental regions to be an important political objective. Regionalisation, now regarded as the order of the day, was a mere Utopian ideal just a few years ago. It is well worth investigating the spectacular and rapid success of this idea for a number of reasons:

- It can help to explain the interests and concerns of academic research and even more those of political decision-makers in Hungary.
- Regionalisation is a complex concept: the apparent agreement of its meaning may well disguise quite different interpretations.
- Without taking stock of possible advantages and disadvantages, future conflicts could endanger the successful implementation of this idea.

In this paper, I will review available interpretations of regionalism, which will often prove to be quite divergent. Furthermore, I will seek to provide an assessment of Hungarian reforms and evaluate future prospects.

Regionalisation: The International Experience

In Europe, the earliest causes of regional movements were historically rooted *ethnic, cultural* and *national differences* (Keating 1997; Loughlin 2001). There can be no doubt, however, that at present *globalisation* and the regional policies of the *European Union* exert the greatest impact on European regionalisation processes (Jeffery 1997; Bache 1998; Halkier *et al* 1998). The creation of larger administrative units was also required because of new challenges of economic development as well as service and organisational tasks of the state and community, and finally by the demands of technological progress. Spatial mobility of the population has increased; people's identity now extends beyond their immediate place of residence (Sharpe 1993).

Regionalising reforms are clearly divided into those administered from above (top-down or modernising regionalism) and the decentralising movements initiated by local actors. 'New regionalism' constitutes the most widely accepted set of political values. A broadly bottom-up approach, 'new regionalism' calls for the co-operation of local communities, economic actors and the regions. It emphasises the democratic embeddedness of regions (Keating 1997).

Although the idea of a 'Europe of the regions' has not resulted in the creation of a unified territorial administrative system in Western Europe, there have been convergent trends. The antagonism of central and local relationships has become less intense. Regions have become important reference points in the development of networks integrating various levels, sectors and activities.

Processes of regionalisation are slow and far from being uniform. The implementation of each reform measure is preceded by elaborate consensus building, legitimising and communicational strategies. Even some of the 'old' member countries have failed to realise the regionalisation agenda of the European Union that calls for the creation of statistical –planning units (NUTS-2), each comprising of several millions of people. Instead, these countries have chosen to institutionalise decisions-making mechanisms that concern regional development issues by establishing various consultative and organisational bodies. In other words, even in Western Europe functional and political regionalism are clearly separated from one another. The latter is generally pursued by regional political elites. These regard the strengthening of the regional level as a means to counterbalance the centralising ambitions of the nation-state (Kohler-Koch 1998). Even countries, where there have been calls for radical regional decentralisation, failed to implement the required reforms in a consistent fashion (Finland, the United Kingdom, Sweden, Portugal, etc.)

Another significant conclusion to be drawn from regional processes in Western Europe is that regional reforms usually fit into a decentralised rather than a deconcentrated model. Changes in Eastern Europe, where challenges posed by the European Union have been much more directly felt, are best investigated against the backdrop of these Western European developments.

The political-economic transition has considerably altered the territorial exercise of power in each of Hungary's neighbouring countries. As a common trend, local governments at intermediate levels have been abolished and replaced by governmental and administrative offices of sectoral or general authority. In many, though not all, transitional countries settlement (municipal)-level administration has become fragmented. Incentives for further co-operation among these fragmented units and efforts to improve their poor development capacities have generally been unsuccessful (Surazska *et al* 1997). Attempts to strengthen local government at the lower intermediate levels have failed in similar ways. Only very recently could one witness effective measures to promote genuine decentralisation.

Regionalisation has been the subject of intense debates everywhere in Eastern Europe. Regionalising efforts and blueprints generally lack popular support. They are driven instead by modernising or centralising ambitions of individual states. On the basis of these findings, the emergence of fundamental differences between

Western and Eastern European forms of regionalism can be predicted. While in Western Europe the regions' growing strength is a natural process and an inherent part of democratic institution-building (Sharpe 1993), regionalisation in post-Communist states tends to be of the top-down sort driven by a modern agenda, the wish to prepare for EU accession and meet European expectations.

In 1999, the first regional-territorial reform was implemented in *Poland*. Elected representative bodies with local governmental, regional and political powers lead 16 'voivodships'. The voivodships constitute, however, not only local governmental but also governmental-administrative units. This arrangement leads almost automatically to conflicts between the so-called 'voivods' (heads of the voivodships) and the 'marshals'. Which sector will become more important in a given region is impossible to foretell on the basis of the original regulations (Kieres 1997). Parallel to the creation of regions, 361 counties (powiats) were also set up. These are the first such elected bodies at this administrative level. The first assessments of Polish regional reforms are mixed. Intense rivalries have developed among state and local governmental representatives in the regions. In addition, delegation of responsibilities has not been accompanied by a simultaneous transferring of the required resources (Emilewicz and Wolek 2002).

In *Romania*, eight regional development units were created in 1996 in direct response to pertaining EU demands. This arrangement was based on a conceptual model developed with the PHARE programme's financial assistance. The law on regional development established regional development committees and agencies to head these units. Although Romanian counties continue to be administered by local governments, their powers and independence are extremely limited in comparison to the authority of the prefects who represent the central state administration. This holds true for all other forms of local government as well (Horváth and Veres 2003).

In *Slovakia*, the eight regions (kraje), which were set up in 1996, serve purely administrative purposes. The implementation of a comprehensive regional reform has been hindered, among others, by ethnically rooted conflicts. The next stage of the reform delegated local governmental authority to these regions (strictly speaking these should be referred to as counties rather than regions given their size). At the same time, NUTS-2 regions were developed independently from the administrative divisions. This indicates a degree of uncertainty with regard to desirable territorial structures as well as a lack of generosity on the government's part in decentralising its power (Mezei and Hardi 2003).

The strongly integrated 62 municipalities of *Slovenia* can conglomerate into 'regions'. The first reform proposals for regionalisation have already been put forward. The Slovenian law on regionalisation passed in 1999 was aimed at creating the institutional system of regional development in the country. Until the formation of administrative regions, it is left to local governments to decide what powers they delegate to the 'regional' development agencies. It is indicative of the scope of their influence that local governments have already established 22 such agencies. In short, institutional systems and resources of development policies are quite centralised (Tüske 2002).

Similarly long political debates preceded the declaration of regional reform as a constitutional objective in the *Czech Republic*. The actual arrangement according to which the 14 regions were drawn up has been attacked from various directions for allegedly ignoring historical and ethnic concerns. In addition, the regions differ considerably in size and could not qualify as units of the NUTS nomenclature as the EU has judged them to be too small. As a result, there are 8 EU regions in comparison to 14 administrative units. Ever since the drawing of the boundaries of these regions, attempts have been undertaken to correct them (Halász 2000). Instability is only increased by the proposed plan to re-draw the boundaries of counties (Blázek 2001).

Regional reform led to disintegration rather than integration in *Bulgaria*. The division into 28 regions, abolished 10 years ago, was put back in place again. These are strictly administrative units each headed by a governor. NUTS units cannot rely on an institutional background. Frequent changes in regional divisions indicate the lack of a consistent regional conception. The absence of regional local governments is perhaps less palpable since the settlement level is strongly integrated. There are only 262 local municipalities (Drumeva 2001).

International Standards of Political Regionalisation

The implementation of EU strategies is to a crucial extent dependent on the pertaining activities of the member states. Ultimately, the unification of the European administrative area is driven forward by the progress of economic integration. At the same time, direct EU prescriptions on the organisation or procedural rules of individual national administrations are yet to be seen. EU criteria only specify levels of performance, i.e. the quality of the 'output'. The European Union has nevertheless sought to alleviate the tension between the independence of nation-states and the common interest of effectiveness:

- It imposes various criteria on the output side of certain community policies. This creates at least some pressure in favour of uniformity.
- It adopts basic principles adherence to which has become a common 'European' expectation.
- And it can exert its influence most effectively due to the fact that the central and local governments of individual member states have regular contact with decision-making bodies and the bureaucracy of the EU. The operative practice of 'multi-level governance' puts pressure on partners to adjust to expectations. The 'governance' model, different from traditional state-centred forms of government, creates such adaptational pressure especially in centralised countries where mechanisms for the balancing of interests do not function satisfactorily (Grote and Gbikpi 2002).

The European Union does not expect accession countries to adopt uniform solutions. At the same time, it is important to have clear priorities concerning relevant criteria for the development of public administration. The recognition of this fact is reflected in the joint, so-called *SIGMA programme* of the OECD and the European Union (SIGMA 1998). The authors of the summarising proposals emphasise that

their recommendations are primarily of an indicative nature and that individual countries are to adjust applicable organisational and operative solutions to local conditions. With regard to *territorial administration*, the main suggestions are decentralisation, development of adequate connections among different levels of government, the social embeddedness of local governments, and the provision of legal protection for clients of public administration and consumers of public services. The proposal also makes it clear that the sequencing of reforms is also to be planned consistently. It is not advisable to adopt mechanically 'more developed', market-type solutions and innovations. The key to the implementation of administrative reforms is to persuade the organisations and groups concerned. Past experience suggests that reforms initiated and forced through from above are in most cases doomed to fail. Several reports have noted already that administrative modernisation, reform and EU-compatible re-adjustment is seriously hindered in Eastern European countries by the fact that no systems for the evaluation of the public administration's performance have been developed or adopted.

The *European Commission's White Book 'European Governance'* is an important source which states that a minimum consultative standard with regard to every single European policy has to be realised in co-operation with regional and local governments and civil society. The watchwords of good governance include openness, participation, accountability, effectiveness and coherence. These corroborate the principles of proportionality, subsidiarity and partnership and underscore the call for the development of general and thematic networks.

In summary, the European Union has clearly taken a stance in favour of a degree of 'homogenisation'. According to relevant assessments of the EU, the administrations of most accession countries stand in need of reform and substantial development. At the same time, no straightforward recipes for implementing these reforms have been provided.

There have been several international initiatives to define the concept of 'region'. In 1996, the Assembly of European Regions adopted a declaration on regionalism in Basel. Subsequently, the blueprint of the European Charta of Regional Local Governments was issued. These documents state substantial and formal criteria to be met by the regions.

According to the draft of the *Charta*, regions are to be accorded constitutional protection. The boundaries of regions cannot be altered without their express consent. They are to be able to initiate legal procedures to protect their rights. Only posterior legal control can be exercised over their activities. Regional local governments are the largest administrative units of the state situated between local governments and the central state. An elected body heads them. Regions with general authority are to be provided with adequate regulatory and executive means to carry out their specific and delegated tasks.

The *Charta* makes separate mention of the re-distributive financial role of regions with respect to local governments and highlights the importance of inter-regional co-operation, transnational relations, and the right of regions to participate in international relations. In summary, the aspirations of regional local governments

are strongly embedded in the process of European integration. This process can accelerate the re-arrangement of territorial power structures within nation-states.

It should be noted that the majority of EU member states are not prepared or not able to meet the above criteria. This probably explains the fact that the blueprint of the Charta has not been put on the political agenda for years.

To conclude, it cannot be said that there exists external pressure for regionalisation. At the same time, present motivations enable us to recognise that addressing the problem of intermediate-level or *meso* government should not be postponed any further.

The History of Region-building in Hungary

The system change has brought about radical changes in the territorial structure of power in Hungary as well. Settlement administration was strongly concentrated in the former Soviet-type system of councils (*tanács*) (as few as 1600 local councils were responsible for 3200 settlements). The adoption of a new model of local government has placed settlements into key positions in the exercise of local power. Counties have lost their previous territorial integrating role and political influence. County and regional levels are controlled by the central state administration under the auspices of sectoral authorities and are organised into fragmented structures:

- Small villages have displayed potential and launched concrete initiatives the result of which has been spectacular growth, particularly in the area of basic services. This has increased citizens' welfare and hence the stability of the entire system as well. Fragmentation, however, has by now rendered the financing of the ineffective institutional system impossible. As a result, more and more local governments of small settlements are forced to close down their institutions.
- County local governments have been unable to exploit their political legitimacy for the purposes of lobbying and co-ordination. They only play a subsidiary role in the management of some institutions (public services). County local governments have not been able to pursue their policies effectively in any particular sector. In terms of institution management, they function more as caretakers than autonomous regional governments.
- The void opening up at the intermediate level of the structure of power has been occupied by a set of administrative organisations subordinate to the central government. These have filled positions of power at the county level. Reforms of the public administration between 1994 and 1998 failed to compensate the lack of regional integration.

Similarly to other Eastern European countries, the future of the intermediate level had become a crucial question – less so from an administrative perspective than from that of regional development – in the mid 1990s.

After the passing of a separate law for regional development in 1996, the implementation of modern principles of regional development (decentralisation, partnership, inclusion of local resources, additionality, etc.) was hindered by political resistance. Neither the government nor settlements (towns in particular) supported the strengthening of local governments at the county level. This led to the

creation of a parallel institutional network of regional development. The Hungarian Parliament found that development councils of a corporate (delegated) legal status were more democratic than directly elected county local governments.

The question, what territorial arrangement would constitute an adequate framework for regional development policies? were viewed with a comparable degree of uncertainty. The law for regional development mentioned above did not specify the actual target area of regional development and thus created special regional development institutions at three different regional levels. The development councils of counties have become, however, the pivotal and truly operative actors in the actual system.

Practical experience from the time between 1996 and 1999 showed that it is unrealistic to expect the spontaneous, ‘bottom-up’ emergence of regions as the basic units of territorial development. The new government coming to office in 1998 accepted to adopt a regional-level territorial division. The law for regional development was amended in 1999 to that effect. This amendment put an end to the debate on the status and territory of regions. The amended law clearly stated that regional development councils are to be created in the NUTS-2 regions.

The insufficient economic strength and size of counties in Hungary renders them incapable of performing successfully in the European-wide economic competition among regions. Consequently, regional development must aim at strengthening regions even if the feasibility of a comprehensive regional reform is questionable in the near future. Significant differences can be observed between pertaining regulations of Structural Funds of the European Union, on the one hand, and regional development policies of individual member countries, on the other. In any case, given its objectives of simplification, transparency and efficiency the European Union has often urged and accepted centralising measures. For the same reasons, it has been quite ‘liberal’, i.e. permissive with regard to different ways of implementing the partnership principle. EU demands mainly concern the actual management of Structural Funds and the precise specification of competencies and procedures.

After 2002, the Hungarian government identified radical regional decentralisation, vertical and horizontal co-operation, improved efficiency of management, greater social embeddedness and more democratic practices as the main priorities of further development. There is a broad consensus among experts that the following steps are to be taken:

- From 2007 at the very latest, measures in favour of the improved competitiveness of regional economy are to be assigned to the *competency of the regions* themselves. This should include the creation of broader development programmes, participation in euroregions and the management of regional programmes of the European Union that enjoy political support.
- Regional councils are to be allocated their *own budget and sources of revenue*. They are to enjoy opportunities for raising and accumulating resources of their own.
- A *decisive majority of local actors* is to be guaranteed in regional development councils. Following the example of regional chambers in the United Kingdom, it

may be a good idea to establish bodies with larger constituencies as well. This solution may help to lay the groundwork of political regionalisation (Tomaney 2002).

- It is crucial to *strengthen the institutional background of regional councils*. The tasks assigned to agencies authorised by the councils include: implementation and management of regional development programmes, economic consulting, marketing, information collection and mediation, review and submission of applications, fund-raising, education, training, preparation of regional plans as well as the commissioning of analyses and background research work required for these tasks, etc. Efficiency at the regional level depends to a large extent on the appearance of other organisations, services and functions in addition to regional development councils and agencies, i.e. on the emergence of *regional networks*. The key to regional political management is an integrated approach. Such an approach, however, is only possible in an institutional environment of sufficient ‘density’ (Amin and Thrift 1994). Consequently, territorial regionalisation of public administration is tied up with that of public and private services.
- A reduction in the number of administrative levels (region, county, micro-region) presupposes a decision in the *county vs. micro-region issue*. A government draft put forward to the Hungarian parliament proposes the creation of development councils and agencies in the micro-regions including the allocation of the required budgetary resources for this purpose. In other words, it seems that the new government shies away from the unpopular measure of reducing the number of administrative levels, as have its predecessors.

The above tasks would be relatively easily realisable through an amendment of the law on regional development. By contrast, the creation of regional local governments are a much more complex issue.

The Prospects of Political Regionalisation

Regionalisation in Hungary is not an imperative issued by the European Union. Rather, it is a modern and democratic challenge that is to be met in accordance with national interests and opportunities. The territorial structure of power is still radically incomplete while the Hungarian state remains strongly centralised. A decentralised government and a well-functioning system of local governments are inconceivable, however, without the existence of a strong intermediate administrative level. The debate concerning the future of counties took up almost the whole of the 1990s. Nevertheless, it proved to be unfruitful and unsuccessful. Discussions concerning the status of regions could come to a more successful conclusion, provided they yield a strategy with clear priorities resting on a consensus of politicians and experts.

An immediate decision to be taken concerns the question of *constitutional specifications*. At stake in the choice between counties vs. regions is the decentralisation of power rather than regional development, administration, organisation or economies of scale. The structure of power is determined primarily by the

significance of the intermediate layer and not the independence accorded to the local level. Irrespective of whether counties or regions will ultimately manage to seize power at the intermediate level, the real question is whether they will be able to counterbalance central power or become its mere instruments instead. As already remarked, regionalisation has mainly involved decentralisation in Western Europe. This holds true even if there are countries where state and local government bodies both act at the regional level.

An essential question is *what functions* should regions be entrusted with. In order to answer this question, one has to evaluate the areas in which the regional dimension and regional cohesion are most likely to emerge given social and economic developments in the present and the foreseeable future. It is essential not to forget that current state and communal tasks in the future will not necessarily be required to organise solutions of a kind that would necessitate the involvement of an entire administrative level:

- The significance of the level of regions in territorial development is unquestionable. This function of the region attracts further ones too, especially in the areas of economic development and support, research, technological transfer, financial services, marketing as well as others. The provision of such functions need not rely on the capacities of the central state administration.
- The management of a considerable part of linear infrastructure requires units exceeding the size of counties. The organisation and control of such units is also to be located outside the sphere of central administration.
- High-quality human resources services – including higher education, hospital networks and academic research – will be fully organised into regional-levels. However, the management of such systems is not typically a regional task.
- Environmental protection is already organised at the regional level. However, given the special responsibilities of this area, its territorial divisions do not follow administrative boundaries.
- Standard administrative, official and judicial activities are mostly organised according to the demands of the population. Regional level administration and organisation is only necessary in a few sectors requiring highly qualified expertise or special operative conditions with a relatively small clientele.

It can be concluded; therefore, that regionalisation is driven in Hungary primarily by regional development objectives. Regional policies have been the most successful where local governments headed by elected bodies and entrusted with general competencies are put in charge of regional development – of course, in co-operation with the central government (Horváth 1998). Institutional background, however, will not in itself explain such success stories (Harding *et al* 1999). We have already seen that the creation of political regions takes a long time. This process depends on the attitudes of those concerned as well as on the actual conditions existing in a given country. Artificially created, conflict-ridden and disintegrated regions will not be able profit from the mere fact they are organised into a larger spatial unit.

In the light of the current government's programme, it might seem that the political elite has accepted the idea of regionalisation. At the same time, analytical

surveys carried out, mostly by the so-called IDEA group (IDEA 2003), have not been able to get a grip on all these tasks since the declaration of these reform objectives. In addition to the existing political issues, a score of theoretical questions remain open. These could also impact on the prospects of reform measures. On the other hand, a reform conception, which is impeccable from the experts' point of view, is still doomed to failure in the absence of political support. In the present case, political support is to be understood in a broad sense of the word since for a required amendment of the constitution a two-thirds parliamentary majority is needed. The fact is, however, that not even minimal political support is guaranteed since a considerable number of ministries have not been genuinely interested in regional decentralisation. Zoltán Magyary recognised as early as the 1930s that the Prime Minister's backing is indispensable for successful administrative reform (Magyary 1931).

Returning to theoretical analysis, however, let me now consider a few questionable aspects of the proposed regional reform of public administration.

The Number of Regional Administrative Levels

István Bibó argued that focal points of the territorial system of public administration should not be located at directly contiguous levels but should be removed to more distant ones (Bibó 1986). The number of levels and the size of the units of public administration are closely tied up with the entire system's operative rationality and democratic content. Neither of these two dimensions should be ignored.

The government programme written in 2002 states that counties are to continue as administrative levels, even if they are seen as the weakest link in the future structure of public administration. On the surface, micro-regions will not constitute an administrative level but will be institutionalised as local governmental associations. At the same time, since micro-regions form systematised units as well, the former intermediate level will be replaced by three separate levels (micro-region, county and region). Comparison with standard international solutions rightly gives pause, however, since countries of similar size and population usually only have a single intermediate level of local government entrusted with general competencies. Having more levels than would be justified entails significant disadvantages (costs, malfunctioning, parallel structures, conflicts). The proposed reform ought to resolve the issue of a focal level or levels. It is to be decided which administrative unit is to constitute an administrative 'level' in the future.

The Size and Boundaries of Public Administration Units

The creation of levels is justified where there is a tendency for the respective spheres of influence of active organisations to overlap (Kiss 1976). The adequacy of the size of corresponding individual territorial units can only be established relative to the functions to be provided.

The future of micro-regions depends essentially on the settlement level: if the local governmental, more precisely, the administrative and services system of

settlements, fail to integrate, then micro-regions will have to assume local and district tasks. This will make it more difficult to realise the optimal operative scale.

Similar dilemmas arise in respect to the desirable number and boundaries of regions. Disagreement surrounds the actual list of regions as well. It is peculiar, however, that the debate has focused not so much on the appropriateness of the boundaries of administrative regions, but rather on the most suitable strategy of adaptation to regional policies of the European Union. Central Hungary, the most developed region in the country, will not receive subsidies in the coming programme period. This would mean that the country would no longer be supported as a whole. Is it worth rearranging the NUTS-2 regional structure set out in 1998 because of this? The experts without further inquiries can hardly answer this question. Short-term political considerations concerning the regional policies of the European Union cannot constitute the only point of departure for a comprehensive reform of public administration. It is important that long-term objectives of a public administration reform and short-term regional policies are not treated in isolation from one another.

Legal Status of Territorial Levels

In addition to elected regional local governments, the government programme aims at creating local governmental associations at micro-regional and county levels as well. Hungarian regions are artificial creations. As a result, the Hungarian society's regional identity is weak. Neither civil society nor political institutions are organised in terms of regional units. This means that very little democratic control will be exercised over the regional bodies to be elected in 2006. Findings from the now almost ten-year long debate on the counties future allow us to conclude that political uncertainty and the decreasing potential for regional lobbying seriously undermines regional identity and the cohesion of settlements (Horváth and Pálné Kovács 2000). The creation of political regions requires intensive political preparatory work and the strengthening of regional identity.

The social embeddedness of the micro-regional level appears to be greater than that of regions, although this is also more an assumption than proven fact. The danger inherent in the adoption of associative forms is that elitist and exclusive decision-making procedures will become too widespread. As a result, differences in size and sociological disparities among the constitutive members could begin to play an informal role.

It is also to be noted that the institutionalisation of the above-mentioned levels in public law only covers a part of a complete model of government. Accordingly, the literature distinguishes between governing in the sphere of public administration and governance integrating various sectors and levels. In addition to its overall democratic character, the notion of good governance includes rationality (efficiency) and reactivity (flexibility, embeddedness) as well (Kooiman 1993). In other words, the creation and management of new levels of public administration is not a purely administrative task.

Prospects

A new feature of the current regional reform is that it extends to political questions about the structure of power. Some believe that political regionalisation is the only way to renew and decentralise the political system and the state in Hungary (Ágh 2000). In other words, this argument focuses not so much on the problem of adequate territorial units or the obsolescence and excessive fragmentation of the county-system, but rather on the claim that the Hungarian state is insufficiently decentralised and current units of regional development are undemocratic. It is questionable whether elected regional local governments can indeed ensure decentralisation. Despite the fact that county local governments are elected, they have not been able to acquire political power, let alone resources. Without genuine commitment to decentralisation, regional reform may be doomed to failure.

Questions concerning geographical size, administrative levels and organisational structure should not divert attention from the essential point, namely the imperative of decentralisation. Regionalisation without a prior decision in favour of decentralisation threatens to increase the influence of the central government through the creation of regions. This would not be unprecedented in Hungarian history or in international practice. Accession to the European Union forces Hungarian actors to make a move and thus creates the opportunity to break the deadlock. Public commitment to launching the process of regional reform can and should be made. Regional reform cannot be carried out in one stroke in Hungary. The programme of regional reform of public administration is still fraught with contradictions and is in need of further refinement. The 'art of small steps' should not be looked down upon even in the case of comprehensive reforms of government. At the same time, such a reform is only feasible as long as it rests on a clear vision of the future enjoying the support of expert opinion (Lindblom 1994).

Hungary's competitiveness in Europe cannot be increased through hasty and politically improvised regionalisation. Political regionalisation is not a Utopia, nor is it an ultimatum posed by the European Union. It is much more a long-term objective that calls for purposeful preparation.

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Chapter 7

Balancing Between Transition and Modernity: Principles and Institutions of Regional Planning in Hungary

Edit Pfeil Somlyódyné

Introduction

The system of regional planning is an instrument of implementing regional development policies and influencing regional-level processes. In order to understand the current system of regional planning, it is crucial to be sufficiently familiarised with its precursors. Regional planning has always been strongly affected by the prevailing political conditions as well as changes in society and the economy.

The change of political system ushered in a new era of regional planning in Hungary. A relatively short period without any planning at all was followed by the issuing of a series of new regulations on regional planning while new institutions of regional development were established. The newly emerging structure of regional planning was influenced predominantly by the regional development policies and programming of the European Union. This has helped Hungary to adjust to modern requirements of state governance. In this respect, however, Hungary is yet to bring its transitional period to an end. Getting rid of the legacy of state socialist planning and the adoption of new principles, methodologies and procedural rules are time-consuming tasks. The purpose of this paper is to provide an overview of the main characteristics of the institutional framework that has emerged in the absence of an organic process of development. It seeks to highlight still existing divisions between development planning and administrative-regulatory planning as well as indicate a number of general problems arising with the creation of a modern state in Hungary.

The Legacy of State Socialism in Regional Planning

The collapse of the state socialist system marked an important methodological and legislative turning point for regional planning. It is true that the ensuing ideological turnabout and the adoption of new social values had to inevitably lead to a

thoroughgoing change in the system of regional planning. Upon closer examination, however, we find that old principles shaping the institutional structure of regional planning have largely survived in the new political context as well. Before the system change in the former Eastern Bloc, models of regional planning in these countries were sharply distinguishable from those used in the West. In state socialist countries, and Hungary was no exception, regional planning was split into two main branches. Social and economic planning was separated from technical and physical planning. Social and economic planning was identical to central economic planning, while the term 'regional planning' was used predominantly in a technical sense. Moreover, the use of the latter term was confined to settlement-related issues, while the former was meant to cover wider regional issues. This was a completely forced and impractical division in the system. The two sub-systems of social and economic planning, on the one hand, and technical and physical planning, on the other, were overseen by different planning institutions and were managed separately. In the socialist state, the economic model of which was often referred to as 'state-planned economy', the Central Planning Office (*Országos Tervhivatal*) was in charge of planning the national economy. Priority and independence of large scale economic planning was widely accepted. Issues pertaining to the settlement level could not be accommodated within this framework. As a result, the construction sector assumed responsibility for what was then called regional planning. This institutional split at government level remained in effect until the system change (Lackó 1988; Illés 2003).

In market economies, the system of territorial planning is usually called administrative-regulatory planning, but the scope of this term is much wider and more complex than how the same term is used in Eastern Europe. Most importantly, that usage also includes an important developmental dimension.

In Hungary, the first comprehensive regional development policy was adopted in the late 1950s. This policy also entailed a rethinking of the entire framework of territorial planning. A government decree issued in 1958 was the first legislative measure to lay down the principles and methods of regional planning. For the purposes of regional surveys required for the planning process, the country was divided into nine planning regions. The boundaries of these regions were adjusted to the country's urban network. The documentation of regional conditions in 1960 resting on a comprehensive survey constituted a major step in the evolution of regional planning (Kőszegfalvi 1982). It signified the beginning of a conscious approach to urban and regulatory territorial planning. Around this time, it also was recognised that master plans for urban areas could not be based directly on five-year national economic plans, but rather specific national and regional development strategies are required, which can then serve as the basis for administrative-regulatory planning in settlements.

A new phase in regional planning began in 1963. Government-level legislation classified regional planning as a form of technical and physical planning. This resulted in a series of regional surveys, working plans and regional master plans. Thus the basic dichotomy of the planning system remained in place since the distinction between regional development planning and regional planning in this

narrower technical sense continued. Social and economic objectives of regional development were included in national economic plans (Kőszegfalvi 1982).

In regards to the hierarchy of planning, national planning, planning for economic and administrative regions and planning for other spatial units were kept separate in both types of plans (i.e. developmental and administrative-regulatory). These forms of planning were institutionally centralised. At the same time, regional authorities such as county councils and the City Council of Budapest were in charge of elaborating on medium-term regional development plans. These bodies as well as local councils produced master plans for their administrative areas as well. The Blueprint for Settlement Network Development completed in 1963 was the most significant planning document of this era. It included all essential components of regional planning (with the exception of environmental protection), defined a hierarchy of functions and roles among settlements, and set the boundaries of their respective agglomerations.

A comprehensive blueprint for the management of Hungarian regional planning was published in 1971. The Hungarian Government adopted the National Plan for Settlement Network Development to serve as a conceptual guideline for settlement development in order to reduce disparities among the population of different settlements at identical functional levels in the settlement hierarchy. The strategy defined a hierarchy among settlements, but it was not specified to which settlements and districts centralised settlements were required to extend their services to since no district borders were mentioned in the document. However, the two principal objectives of regional development, as they were stated in this document, are still valid for both Hungary and Europe today: to improve the efficiency of the national economy and to reduce disparities in the living standards of the population of different regions (Illés 2003).

Despite these improvements in the field of planning, the separation of the two main branches of territorial planning and the adoption of opposing approaches in these two branches had negative consequences. Conflicts were only exacerbated by institutional divisions within the central administration. The system of regional planning as drawn up in the relevant legislation could never operate as a functional whole. Medium-term strategies were drafted for economic and planning units, but comprehensive, longer-term development and regulatory plans or regulatory plans at the county level were never put forward. The primary domain of regional planning was administrative-regulatory planning for settlements and special areas. The system of regional planning underwent some modernisation, involving also its legal regulation in 1982, but the overall approach to planning and its principles did not change fundamentally. The new system was simpler insofar as it contained fewer types of plans. At the same time, planning/economic units representing the regional level were omitted from the spatial categories of planning. In the mid 1980s, a National Regulatory Master Plan was produced aiming to integrate all spatially localised components of territorial development that were known at the time (Lackó 1988).

Following the change of system, the Hungarian Parliament passed new legislation to regulate regional planning in 1996. The newly revived planning system

could not, however, start with a 'clean sheet'. In order to understand the problems caused by the surviving socialist legacy and the institutional shortcomings that will be discussed later, it is important to summarise the experience of the socialist era (Lackó 1988):

- The division between development planning and physical planning persisted in the Hungarian regional planning system. As already mentioned, there was no integrated regional planning until the system change in 1989. The requirement to synchronise and harmonise the content of these two types of planning was clearly stated by the pertaining legal regulations. At the same time, meeting this requirement in practice always ran into considerable problems throughout the entire socialist era. One reason for this was that technical-physical planning was often neglected in national economic planning.
- As a matter of principle, the aims and objectives set in a higher-level plan were to be followed in lower level plans as well. This principle contributed to the development of a formal hierarchy.
- Planning activities were also confronted with the fact that central functions were gradually diminishing and changing in the course of time. The local level was strengthened, even though institutional mechanisms for representing the interests of different social groups in the process of national planning remained deficient.
- The planning system would have required a better methodological basis as well as a better understanding of fundamental connections and important developments.
- Difficulties surfaced in many areas neglected by planning processes. These included problems of agglomerations, insufficient development of underdeveloped areas, disparities among villages and the decline of environmental conditions in some areas. There were no special plans developed for such areas.
- Implementation of spatial planning was difficult, which can be explained by the lack of information on, among other things, the actual regional differences and the spatial trajectories of population movements.
- Among the criticisms voiced by experts at the time, it still holds true that planning should be a continuous process and that settlement master plans should be based on development strategies with relevant content.

The efficiency of regional planning crucially depends on its relationship to public administration. As far as regional planning in the narrower sense was concerned (i.e. planning for administrative/economic regions), the fact that these units did not at the same time constitute units of public administration caused a series of problems. First of all, the institutions in charge of the implementation of the plans were not clearly identified. The difficulties were aggravated by the fact that mechanisms for the drafting and approving of plans were equally ambiguous due to the unresolved nature of the relations between planning institutions, on the one hand, and those of public administration, on the other. Planning regions and administrative regions overlapped only in two cases: for national planning and for county-level planning (Kőszegfalvi 1982).

A Period without Regional Planning (1990–1995)

System change put an end to the system of regional planning as defined by previous legal regulations creating *an entirely new situation*. Lacking an effective legal framework, regional planning and the operation of the relevant institutions continued in an improvised fashion until 1996 when the Hungarian Parliament passed the Act on Regional Development. Most decision-makers at the time held the view that there was no real need for regional planning. As no comprehensive governmental strategy was available, regional policies were replaced by special local crisis management programmes that lacked an overall planned approach.

During the same period, however, local physical planning continued as the pertaining legislation remained in effect. By contrast, development-oriented planning was reduced to only a few methodological experiments supported by the Ministry of Environmental Protection and Regional Development, and to the first micro-region development strategies prepared within the framework of the Phare programme (Rechnitzer 1997).

As a result, territorial planning in the narrow sense had very limited effect on processes taking place at the regional level. The implementation of government programmes for crisis-stricken areas mentioned above gave rise to a new model of regional development councils. This happened at a time when the legal concept of the ‘region’ was still unknown. For instance, regional development planning began as a grassroots initiative in the Southern Transdanubia region within the voluntary co-operative framework of counties. Using available intellectual resources in the region, and following the example of member states of the European Union, blueprints for regional planning were developed as early as 1995.

Even before the Hungarian Parliament passed the comprehensive legislation of this sector, the drafting process of the Act on Regional Development had had an important effect on ongoing developments. What was an almost final draft had been made available already in 1992, although the legislation itself did not get passed until 1996 (Hrubi 1997). The passing of the legislation gave in turn a new impetus for regional planning. Thus, by 1999, every region and county had its own development strategy in effect and most of them had also adopted a development programme based on this strategy. In this way, a new practice of regional planning, first spontaneous and then also legally regulated, has been established which can be described as follows:

- its main principle was to define a course of development governed by the priorities of regional communities,
- it was adapted to the planning methodology and principles of the EU,
- it sought to create partnership among local actors and enhance social participation in the planning process,
- it was ultimately aimed at producing programming documents (Rechnitzer 1999).

The Legislative Basis of Regional Planning

After the system change, counties representing the intermediate level of public administration enjoyed only minimal political legitimacy. Accordingly, they were allocated only few competencies, while local authorities, which were on average very small, became the main actors in the management of regional administration. This re-arrangement of power structures was also reflected in regional development and regional planning. The intermediate level of public administration was not assigned any authority in regional development. Instead, a new and separate institutional framework was set up for this purpose.

With the passing of the Act on Regional Development in 1996 the Parliament sought to create an institutional framework that was EU-compatible and also sufficiently decentralised. The legacy of the old regime, however, could not be overcome. The institutional separation of development planning from physical planning remained unchanged. Moreover, the fact that the new institutions of regional development were set up in parallel to those of public administration rendered these divisions even more separated. Due to these systematic divisions, the methodology and procedural rules of planning have not been clearly established to this very day.

These problems are also reflected in the central administration of regional planning. Various ministries have been struggling for more than a decade with the fact that regional development remains artificially separated from settlement development planning. While the Ministry of Interior is in charge of settlement development, regional development is currently overseen by the Prime Minister's Office.

The Constitutional Amendment accepted in 1989 declared it to be the government's responsibility to ensure that social-economic plans are drafted and carried out (Section 35, paragraph 1, point e of the Hungarian Constitution). There are no further provisions in the Constitution to ground a regional planning system either directly or indirectly. The fundamental rights and responsibilities specified by the Constitution do not at present include provisions concerning social equality or the reduction of territorial discrepancies. However, among the general provisions, it is stated that the Republic of Hungary recognises everyone's right to a 'healthy environment' (Section 18).

Legislation on regional planning consists primarily of the Regional Development Act and the governmental and ministerial decrees that regulate its implementation. Regulations concerning physical planning at the settlement level are embodied separately in the Act on the Development and Protection of the Built Environment. By adopting the Act on Regional Development and Physical Planning (ARD), Hungary has become one of the few countries in which the system of regional planning rests on unitary and comprehensive legislation. At the same time, this legislation can be deemed provisional in several respects. The aims and objectives of regional development and administrative-regulatory planning as specified in the ARD are meeting the current requirements of the European Union. Among the aims and objectives the act specifies state tasks such as:

- promoting the recovery of underdeveloped regions,
- fostering structural transformation in regions,
- reducing disparities in the provision of public services,
- support for European innovative and integrated regional development objectives, and promoting the meeting of regional land use objectives [ARD Section 3, paragraph (4)].

This specification of objectives reflects a lack of consistency between territorial and economic planning. Regional development and physical planning are treated as tasks, which are not exclusively entrusted to state departments and local governments. Although it does not explicitly mention the principle of partnership, the legislation conceives of regional development and physical planning as co-operative activities involving citizens, their associations as well as economic enterprises and their interest groups. However, this legislation runs counter to Western European trends not only by failing to declare regional development to be a state responsibility, but also by subordinating administrative-regulatory planning to the regulation of land use and the location of infrastructural networks, and separates this form of planning from regional development activities. Nevertheless, definitions of development strategy, both strategic and operative programmes clearly show that the Hungarian institutional framework of planning is based on the *adoption of* regional policy principles of the European Union. Among these, the principles that relate most closely to development planning call for programmability, partnership and decentralisation. A bottom-up approach to regional development and physical planning activity is also reflected in the fact that the primary institutional task specified is the promotion of regional development and administrative-regulatory planning initiatives of local and regional communities and the adjustment of these to national development priorities. The weak point of the Hungarian system is that local governments do not have a right to participate in the planning process directly. They are represented in planning institutions only through delegates. Consequently, the reference to local communities in the wording of the legislation is not given any substance in public law.

The Central Level of Planning

The primary focus of ARD was to regulate the institutional system of regional development, not the planning process or the plans themselves. ARD does not specify the spatial categories of planning. Instead, it defines the types of plans and planning competencies allocated to regional development institutions. Thus plans for agglomerations and urban concentrations are completely excluded from the planning system. Together with settlement planning, development planning is conducted at five different levels, while physical planning is affected only at the national and county (local government) levels. Table 7.1 presents the parallel institutional structure, which also manifests in the typology of plans.

Hungary is one of the few countries where comprehensive, national level planning is available. The strongly centralised structure of the state is one of the

Table 7.1 Typology of regional plans and their legal status by territorial level

Institution with planning competency	Regional development strategy	Regional development programme	Administrative-regulatory planning for territorial units or settlements
Parliament	National regional development concept – parliamentary decree	–	National master plan for territorial physical planning – parliamentary decree; Master plans for regions of special status
Government	Regional development concept for regions of special status – governmental decree	National Development Plan – governmental decree Regional development programme for regions of special status – governmental decree*	–
Regional Development Council	Regional development concept – decree*	Regional development programme – decree*	–
County Regional Development Council	County development concept – decree*	County development programme – decree*	–
County Local Government	–	–	County master plan for territorial administrative-regulatory planning – local governmental decree
Development associations of local governments	Micro-regional development concept – decree*	Micro-regional development programme – decree *	–
Local governments of settlements	Settlement development concept – decree	–	Settlement structural plan – local governmental decree; Local construction regulations – local governmental decree

*The acceptance procedure for the types of plans marked by an asterisk is not prescribed explicitly by any legal norm.

Source: Compiled by the author.

factors that make this possible. The Hungarian Parliament passed the National Regional Development Concept in 1998, while the National Physical Master Plan was passed five years later in 2003.

The *National Regional Development Strategy*, currently under revision, whose original purpose was only to provide national level orientation for regional development, was finally given a much wider scope. It covers most aspects of economic and social development given that it was the only national level planning document for years. It sets a number of development objectives and principles as well as priorities for the activities of certain sectors. Some of these prescriptions would have been better placed in a separate piece of legislation on the planning system or in the Act on Regional Development. The Development Concept contains important prescriptions concerning the scenario of the country's spatial structure. However, some of these use development-related concepts that are unclear or lack a well-defined planning methodology. Such prescriptions are for instance the following:

- the country's urbanisation axes and traffic corridors are to form an integral part of the European spatial structure and are dynamic components of regional development;
- new focal points of development (e.g. innovation and enterprise centres, industrial parks, enterprise zones) are to promote a more balanced spatial structure;
- the urban network is balanced., This is demonstrated by having the public services of urban institutions accessible by every settlement, and the decentralised system of academic and educational centres serve as the driving force of regional development [Parliamentary Decree 35/1998. (III. 20.) I.].

The implementation of these policies is, however, doubtful given that it remains unclear how the prescriptions of this strategic document adopted at the highest decision-making level relate to the horizontal and vertical elements of the planning system. An example: development objectives and principles lack a clear-cut legal status, i.e. it is unclear what sort of legally binding consequences they would entail at lower levels of planning. Moreover, controlling and monitoring the implementation of the provisions of the Development Strategy have not been assigned to any specific institution or mechanism. The Parliament 'calls upon' regional development councils and local governments to produce their own plans and support the implementation of the Development Concept. This ambiguous wording clearly indicates how underdeveloped the legal foundations of regional planning are. Already at this point, therefore, we can identify a major pitfall for the central administration of territorial planning.

One reason why the Hungarian Parliament may have chosen this solution is the following: with respect to the development of the institutional framework and instruments of regional planning, the Development Concept focuses explicitly on the adaptation of regional policy principles as well as the planning, financing, programming and implementation practices recommended by the European Union. This shows that building an institutional structure in accordance with international requirements became the primary objective for Hungarian policy-makers even at the

expense of failing to create a coherent national institutional framework of regional planning.

The other national level planning document is the National Physical Master Plan *legislated by the Hungarian Parliament*. Its legal status makes it binding not only for the institutions of public administration but also for all individuals and subjects of private law. The primary focus of the Plan is the preservation and protection of the landscape and that of natural, ecological and cultural values and resources. Its character is mainly protective and its content is primarily technical and physical. This may strike one as unsatisfactory since it contains no rules and provisions either for the territorial system of public services and their institutional structure or for the development of the settlement network. This is a problem because every settlement in the country is required to pass its own regulations concerning land use and construction in accordance with the provisions of this act [Act XXVI of the year 2003, Section 4, Paragraph (1)]. Moreover, the National Physical Master Plan reflects a rather static approach and lacks a palpable developmental perspective.

The central level of planning produced a *National Development Plan (NDP)* in 2002 issued in the form of a governmental decree. This served as the basis for the Community Support Framework regulating Hungary's use of Structural Funds of the European Union. It was developed by a process of continuous consultation with the European Commission. How the NDP can be accommodated within the already existing system of territorial planning has been hotly debated ever since. Arguably, the National Development Plan should have been based on a so-called Comprehensive Development Plan, which should have covered both national development objectives funded exclusively from the country's own resources and those that are co-funded from Structural Funds. The Ministry of Economy and Transport was identified as the co-ordinator of the planning process, while the newly set-up National Development Office within the Prime Minister's Office was in fact responsible for planning. This sharing of responsibilities led to inevitable conflicts between economic policy and regional policy. This situation, together with uncertainties within the institutional framework of national level development policy, resulted in a fragmented approach to the planning process. In other words, the drafting of the NDP was shaped by conceptions associated with specific operative programmes of various ministerial sectors. One positive consequence of the NDP's drafting process was that, for the first time since the system change, objectives of the different sectors of the economy were created. In addition, inter-departmental decision-making processes concerning developmental issues were institutionalised at last. This was the purpose of the newly created Interdepartmental Co-ordination Committee for Development (Pfeil 2003).

Unfortunately, as reflected in the relevant legislation, there is no common legal basis for the planning activities of the different sectors. Nor has it been possible until now to adjust these activities to one another on the basis of a coherent spatial approach. The present regulation cannot be called satisfactory. It prescribes only that the relevant ministries should draft and harmonise their regional development principles when using funds allocated to development purposes as specified by the National Regional Development Concept (in Chapter 2, section 5.3). In short, such a

planning document is not the adequate means of settling procedural issues. Legal regulations are very heterogeneous varying from one sector to another in terms of the level of applicable norms as well as formal and material norms, levels of planning and the content of plans. Therefore, sectoral policies and especially development activities in different sectors are adopted and pursued in an unsystematic fashion. This situation seriously hinders the application of a unified spatial approach in planning.

The Act on Regional Development also fails to set clear guidelines for inter-sectoral co-ordination in regional policy-making and regional planning. Both levels of inter-sectoral co-ordination are insufficiently regulated in the Act. At the governmental level, cabinet ministers are to participate in the drafting of regional development concepts and programmes as well as the drafting of the relevant parts of physical master plans. They are also to report to the government on development measures undertaken within their own scope of authority [ARD Section 9, Paragraph (3)]. The institution specifically set up to enable co-ordination at government level is the *National Regional Development Council*. This body operates on the principle of institutionalised partnership and includes representatives of eleven different government departments. Its task is to secure the coherence of central, regional and sectoral development perspectives (ARD Section 8). However, because ministries are represented in the council at a relatively low level and because the Council itself is chaired by the Minister for Regional Development, it does not wield sufficient influence to effectively promote the interests of regional policy.

There are practical problems arising in Hungary in the regional and micro-regional levels with the harmonisation of the sectoral and spatial planning because they are quite similar to those in other European countries. A principal difficulty lies in the fact that sectoral planning institutions at the regional level do not have decision-making competencies. This makes it hard to co-ordinate policies at this level. In other words, the only adequate platform for effective co-ordination is the central level itself (ARL 1999). Taking a realistic approach to this situation, the only task Hungarian legislation entrusts regional to organs of state administration with is that of providing professional assistance and information in the co-ordination of regional development and planning (ARD Section 18).

Regional Planning in the Context of Incomplete Decentralisation

Regional development planning is conducted at three different territorial levels in Hungary. Regional, county- level and micro-regional development councils adopt regional development concepts and programmes. The institutional set-up of development councils parallels that of public administration. The legal status of the councils is unclear. They are constituted by delegates who from 1999 onwards represent various institutions of public administration only. Members of regional development councils include the president of the regional government, mayors of towns with county status, representatives of local governments involved in micro-regional development associations, and delegates of ten different government departments and the Regional Committee for Tourism. Even a brief look at this list

will confirm that the government is over-represented in regional development councils.

The purpose of the 1999 amendments to the ARD was to strengthen the regions in preparation for Hungary's joining the European Union in 2004. NUTS-2 units, as reported to the Statistical Office of the European Union, which had already existed as planning and statistical units were promoted to the rank of genuine regions with a place in the institutional structure of regional development. In practice, however, the new regional institutions have only an executive role and were not assigned legislative powers.

The activity of the councils is focused on two interrelated areas; namely, the running of decentralised components of the regional system of development subsidies, and the regional planning and supporting of regional planning. Between 1998 and 2002, the implementation of the principle of programmability in the distribution of subsidies was a government priority. In this period, 390 million HUF per year and per region was made available for the preparation of regional programmes. These resources were used for producing regional sectoral and micro-regional programmes. This arrangement has helped to establish the procedural order of drafting, co-ordinating and adopting plans both at political and expert levels. An important positive consequence of the process is that every region has its own strategic development programme, and that, with central financial support, the regional programmes complementing the National Development Plan have all been finalised. Hungary foresaw individual operative programmes for each region, but the intention of the European Commission was different. In the drafting process of the NDP, the role of the regional level was limited to a consultative and partnership function. Although regional development programmes were available, the European Commission insisted that the regions develop so-called regional action plans, which had not been defined by internal legislation and which were finally compiled in a rather hasty and improvised fashion.

In spite of these doubtless positive developments, a comprehensive review carried out by the *State Audit Office* came to the conclusion that in the seven Hungarian regions no programme financing was in place before 2002 (Állami Számvevőszék 2003). The explanation for this is to be found in the way the system for allocating subsidies has been regulated. Central priorities are to govern the redistribution of resources within the framework of a system that is decentralised only in its name. There is in fact little room for manoeuvring left for the regional and county development councils in pursuing their programmes.

Administrative-regulatory planning and settlement planning are conducted in an institutional structure paralleling the institutional framework of regional development. County and settlement local governments draft and adopt county and local level master plans. These bodies have legislative authority as well. This is important because physical plans for settlements and counties need to take the form of a local governmental decree since their provisions are to have a binding effect not only for public institutions but also for subjects of private law. In this branch of regional planning, there is a hierarchy among the different types of plans. This hierarchy was also reinforced by a ruling of the Constitutional Court as well

[Constitutional Court Resolution 3/1997 (22 January)]. The present system is somewhat hindered by the fact that in Hungarian law there is no equivalent to the French and German ‘counter-flow principle’ (Gegenstromprinzip) (Fürst; Ritter 1993) working in favour of local governments there. As a result, the powers allotted to regional local governments in Hungary can be said to be too great in certain respects. The problem in the present case is that although prior to the acceptance of county level physical master plans the positions of local governments concerned have to be consulted, and such plans cannot render stricter legislation of land use to the local governments, which already exists in the current legislation. This ruling of the Constitutional Court is a logical consequence of an important principle of the Act on Local Governments according to which there is no hierarchical relationship between local governments of settlements and counties. As a result, the proposed county-level physical master plans do not contain developmental policies or measures concerning the settlement network or the territorial organisation of public services, as this would be tantamount to encroaching upon the competence of local governments. Further problems are created by the fact that although county local governments are legally bound to ensure that local physical master plans are consistent with that of the entire county, they do not have the means to enforce this rule in practice. At present, the relevant legislation fails to define the scope of national and county level master plans and the methodology to be used in planning.

To return to development concepts and programmes, it is important to note that in view of their status in public law these concepts and programmes have no legal implications of any kind and as such are not legally binding. The only exceptions are the planning documents accepted by the Hungarian Parliament and the government due to the legislative mandate of these bodies. Another source of difficulty is the still ambiguous relationship between development and physical planning. The only provision contained in the relevant government decree states that the two types of planning ought to be co-ordinated and ‘build upon one another’. At this point, we are still confronted with the legacy of state socialism, i.e. the inability to resolve the antagonism between these two branches of planning. It remains unclear what administrative instruments are assigned to the various levels of development planning. Important decisions concerning the sharing of competencies at the intermediary levels of the institutional framework, i.e. regional and county development councils are yet to be taken.

The government regulated the procedure for co-ordinating and adopting plans in a separate decree [Government Decree 184/1996. (11 December)], but failed to make it clear that lower level development plans are to cohere with higher level and national plans. This has a negative effect on the efficiency of the central administration of both developmental and re-distributive policies. As a result, the guiding principle followed in the actual planning practice is that development planning is both a bottom-up and a top-down process to be governed by the preferences of local and regional communities. The dominant professional and political approach to development planning is strongly liberal in character. It holds that the only legitimate way to influence development planning is through the system of regional development subsidies. The support system of regional

development, however, has considerable deficiencies in transparency, mostly concerning the efficient use of support and programs.

The governmental decree mentioned above constituted an important step forward in regulating planning co-ordination and in specifying the consultative authority of different actors. It is worth noting, however, that due to a lack of relevant traditions rules pertaining to planning routines have not been integrated into the procedural law of public administration. The unified act on public administration procedures is currently under revision in Hungary. In any case, however, the proposal put forward by the government makes no reference to planning procedures. This is problematic because current legislation has no provisions for legal redress in cases where procedural and formal rules of planning are violated and no authority is identified to handle such appeals.

A system of professional monitoring and supervision has yet to take shape. The necessary legal means are missing and the state has failed to create a unified institution to deal with these tasks. As far as physical planning is concerned, this monitoring system is still in a development phase. The offices of the regional chief architects and the regional institutions of public administration operate planning councils mandated to evaluate the professional quality and coherence of physical plans, master plans of settlement management and certain constructional [Decree of the Minister of Agriculture and Regional Development 40/1999. (23 April) FVM]. The monitoring of the plans of private investors, however, only takes into account local concerns and considerations pertaining to environmental and monument protection. Such plans and projects are in no way monitored with regard to their impact on the development of the given region or micro-region. A more adequate system should ensure that such plans are in line with the objectives and requirements of national and regional (or county level) development and physical planning. Currently, however, only conformity with administrative requirements of settlement management is called for (Pfeil 2000).

Conclusion

The European Union has had a major influence on the construction of a new institutional framework of regional planning in Hungary. As a result, development planning has been modernised and remarkable progress has been made in catching up with the planning methodology used in the EU. These rapid changes, however, cannot be regarded as constituting a process of organic evolution. In terms of methodology and legal theory, the planning system has many underdeveloped or provisional elements. Some problems related to the structure of state institutions have negative effects on planning as well. A traditionally highly centralised state is reluctant to decentralise its powers for the benefit of regions or even to strengthen the territorial level. At the same time, the institutional structure of the state itself has become highly unbalanced and disintegrated as much of its power has devolved to the local governments of settlements.

Despite all these problems, however, there are positive developments as well. Basic research has been started in order to lay the groundwork for a new and

comprehensive legislation on planning whose aim will be to construct a unified, efficient and feasible planning system in Hungary. The scope of this project is broader than the question of planning, so a new legislation is necessary for the regulation of certain constitutional and administrative problems (Pfeil 2003).

In the long run, legislators will have to consider whether it is important to separate regional development institutions from public administration. This institutional separation continues to create unnecessary and artificial problems. One such problem is the legal dilemma whether regional development councils should be authorised to take decisions in a development document about projects that they are not mandated to carry out as implementation falls within the scope of the authority of other institutions, e.g. local governments. The new legislation has to address problems including the human resources and institutional impact of planning, central administration of planning and the resources of implementation. In summary, the difficulties listed above boil down to the question whether the state is ultimately willing to undertake the prioritising of development areas, objectives and timing or not. At present, the fundamental problem lying at the heart of all the symptoms mentioned is that instead of making genuine choices among alternative courses of action, planning is exhausted by an incessant search for compromises to minimise possible conflicts and thus fails to pursue policy objectives in a consistent fashion.

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PART II

Spatial Processes in the Economy in the Era of Transition

Chapter 8

Changes in the Position of Hungarian Regions in the Country's Economic Field of Gravity

Gábor Nagy

Models of Uneven Spatial Development

Studies and models bringing spatial polarisation into the focus of economic studies entered the mainstream of regional research in the 1950s. The school of thought associated with Myrdal (1957) asserts that spatial inequalities persist and differences grow through imbalances that exist between the individual regions already at the outset, cumulative impacts, causal chains and the persistence of spread and back-wash effects. Krugman (1991), the father of the so-called new economic geography, also belongs to this school of thought. His theory means a step forward relative to Myrdal's, as it provides an explanation for the emergence of and increase in spatial inequalities as well as the evolvement of a special regional economic character even when there are only low level initial differences. It attaches critical importance to the role of agglomeration economy and is able to tackle the impact of state economic policy. The downside to the model is that it rules out technological externalities, ignores innovations and provides only a sketchy outline of the process of economic growth.

In contrast, another group of researchers (Rostow 1960; Friedmann 1973; Richardson 1980) claim that those significant regional differences which arise as a result of the adoption of the capitalist mode of production become less marked as mass production and welfare become common, and that regions, deeply embedded in national economies and on a more or less similar level of development, emerge. The main underlying idea of the models is the continuous presence of those spread effects that first facilitate the evolvement of strong economic agglomerations, and then play a key role in the creation of spatial cohesion and equalisation.

While advocates of the above models argue that spatial equalisation materialises through the spontaneous movement of market forces, economic experts in favour of the theory of growth poles (Perroux 1955; Pottier 1963; Paelinck 1965; Boudeville 1966; Lasuén 1969) are unified in their opinion that an active government policy is

crucial. They claim that sectoral growth poles can emerge even in economically disadvantaged regions, and add that the development of wider regions can be stimulated by the impact of regional multipliers. Analysing the examples of developing countries, Lasuén (1973), however, points out the role of artificial growth poles in the emergence of a dual economic structure and a disproportionate spatial structure that becomes fossilised in the long run. What critics of the theory of growth poles contest is not this, but rather the strength of the development link between growth poles and their 'hinterland' as well as the actual effect mechanism of an incubated core of development. The identification of the flaws in the theory encouraged the formulation of the theory of innovation-oriented development, on the one hand, and that of endogenous development, on the other. Although development concepts¹ based on the theory of growth poles crept in regional policies into Hungary in the 1990s, their implementation was, however, only partial due to scarcity of capital.

The innovation-oriented school of thought embraces Schumpeter's propositions (1980); however, it also goes further and addresses the issues of a systemic approach to innovations (Edquist 1997), an evolutionist approach to the national systems of innovation (Nelson and Winter 1982) as well as the possibilities and limitations of interactive learning processes (Lundvall 1992). For the purposes of this paper the importance of the neo-Schumpeterian school of thought lies in the fact that it can identify the regional systems of innovation that coexist with a global system of innovations, from which geographical specialisation on a regional scale can be inferred.

Models of development based on internal resources underwent significant development between the 1970s and 1990s. While initial theories hoped for almost automatic development and convergence through the enhanced exploitation of internal resources and the novel combinations of their utilisation, the past decade has been characterised by a new perception of technological knowledge and an unambiguous abandonment of neo-classical theories. According to Romer's interpretation (1994), the spatial distribution of knowledge (including its hidden components) is uneven, the possibility of its spatial transfer is limited and an exchange of expertise and experience personally is of key importance. The emergence and persistence of spatial inequalities in an imperfect competition is inevitable. However, as the basis of innovations change, so some places and regions, through rapidly activating the hidden components of knowledge, may be successful also over a longer term, while others may lose their existing competitive edge, believed to be long-term earlier, under a new economic paradigm.

Centre-periphery models seek to describe the system of spatial differences on a global economic scale. While Wallerstein (1974) uses a dual model that provides an academic abstraction of the evolution of the modern global economic system in order to present the trends under review, spatial research made its mark by modelling dependence at a whole-economy (Friedmann 1966) and settlement (Haggett 1983) level as well as flow-induced dependence (Dicken 1992). The last type adopts a novel approach to how spatial differences become entrenched, while not ruling out the simultaneous emergence of trends towards concentration and

deconcentration (decentralisation). Under this approach, regional networks are instrumental in the creation of a complex spatial structure and geographical differentiation. Another key component is urban regions, particularly the classic core centres.

The globalisation theories of the 1990s also help to acquire a better understanding of current trends in Hungary. Scott's theory on regions that are engines of economic growth and their 'hinterland' which are capable of progress (1988) can be applied to the European Union and Hungary relatively closely. Hamilton's interpretation of globalisation (1999: 183), according to which, '... (it is) a series of processes that provide a forum for key participants' securing their interests and for the implementation of their ideas about space', helps to understand the behaviour of foreign capital in a Hungarian context. This interpretation is further expounded by Dicken (1992), who discusses changes in the priorities of corporate strategy building and more specifically the optimal scheme of corporate governance adopted by multinational companies². Knox and Agnew (1998) make it clear that there is a tough spatial competition for investment funds, in which the competitiveness of regions (i.e. areas and settlements) must be proved continuously.

Porter's theory on competitive development as a theory on regional competitiveness (1996) combines the main findings of the theories on agglomeration economies, growth poles and economic bases. The basic unit of his model is the regional economic cluster with low transaction costs, high synergies and mostly outstanding development determinants. However, it does not interpret the development outlook for regions that have no or hardly any development determinants, are only loosely connected to global competition and struggling technologically. It offers continuous productivity growth as its one-size-fits-all panacea, which presupposes that manufacturing tradables are produced for export in a high employment environment.³

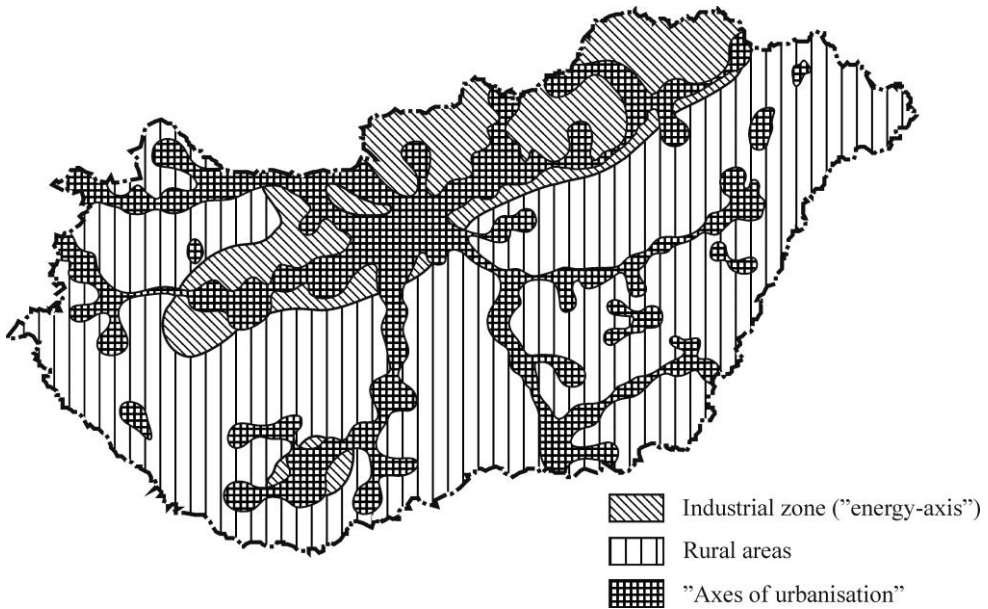
Our hypothesis was: the 15-year-long period of transition of the Hungarian economy was fundamentally determined by a steady rapid increase in spatial differences and, hence, growing inequalities between the individual settlements and regions.

Spatial Inequalities at the Period of Transition

The fundamental characteristics of state socialist economic control were the mitigation of inequalities on the regional (primarily county-) level and spatial equalisation. Consistent with the ideological system of the regime, this was implemented mainly through the centrally controlled location of industries, initially (between 1965 and 1975) as a result of direct government decisions⁴, later (i.e. after 1975) indirectly, through allowing for the spatial preferences of state-owned large industrial companies.

This led to significant reduction in spatial inequalities on the regional levels (i.e. planning/economic regions and even more importantly counties) and in the dimensions under review (i.e. fixed investment developments, output indicators,

Figure 8.1 Regional structure of Hungary before the transition



Source: Krajkó (1982).

fixed assets, income and employment). However, a number of insidious trends also emerged which later added to spatial inequalities. One was that marked deindustrialisation⁵ led to the post-industrial development of Budapest⁶, which proved to be a structural advantage over the countryside after 1989-1990. Another was that an industrial belt (the so-called industrial axis) stretching in a North Easterly-South Westerly direction inside Hungary, which was the primary destination of industrial investments⁷ (Figure 8.1).

Key economic actors in the rest of the country included, almost invariably, industrial sectors satisfying local needs, labour intensive manufacturing sectors (food and light industry, especially textile and clothes industry employing unskilled female labour) and local branches of large companies. Such local branches were a typical form of large socialist companies. Relying on one single resource, i.e. available labour trained to perform one single task in the production process, they were, in fact, the local units of production of large companies in economically backward (or, according to the prevailing system of values, under-industrialised) regions of the country. Neither qualified management, nor an efficient and experienced administrative staff was available at these branches. Nor were any powers of decision-making delegated to them. After 1989-1990 large state-owned companies divested these branches; the majority of them were unable to survive under market economy

conditions. By contrast, core-companies managed to remain in business through considerable sacrifices.

Settlement-owned businesses and non-agricultural arms of co-operatives were established to employ permanently or seasonally available labour in local economies. The former were set up to implement the development-related tasks of local councils. Most were able to grow under quasi-market circumstances prior to the transition. Later they were privatised predominantly by resident private individuals. Some economists seemed to identify a nascent hinterland industry in this group of viable businesses. Illusions were shattered by the regime change.

The majority of former self-employed craftsmen had to work in cottage industry and small industrial co-operatives. Evoking the model of the Third Italy, the successful ones are still in business, producing specialised high quality commodities. Those that proved unfit for long-term operation either went out of business or their employees became self-employed again (or formed minor business partnerships).

As was pointed out by economists and regionalists at the time, the snare laid by what looked like equalisation was that equalisation came at a price, i.e. spatial inequalities became increasingly sharp in the individual counties (regions). Vági (1982) outlined how development funds had been allocated within the individual counties. The development of county seats was accorded the highest priority. In the case of villages, which constituted the bulk of the settlement stock, however, budgetary funds slowed to a trickle. The reason why it engendered general social tension was that from the 1970s booming large agricultural companies contributed heavily to development in villages and ran a verifiable welfare system. Household plot production on the pieces of land allotted to members of the co-operatives was a source of supplementary income, which also resulted in tangible improvement in living standards, through a significant amount of extra work, though.

The radical left-wing of MSZMP, which considered the class of organised industrial workers and, within this, skilled workers to be the backbone of the party, detected agriculture-fuelled rural convergence, and urged immediate steps. As one of its last realistic decisions, the 'Kádár regime'⁸, while remaining in favour of growing wealth in the provinces, allowed for the possibility that labour in large industry could also earn supplementary income. Its tool for this was economic teams, which it first supported, then, in 1982, officially approved. This change led to the incorporation of the principle of productivity and the possibility of financial reward for individual performance in the system. In the 1980s the development of small-scale businesses rested on the social capital and trust⁹. The rapid spread of quasi-private enterprises and, after 1984, private companies proper (e.g. economic associations, civil law companies, co-operatives etc.) foreshadowed the emergence of a new divide in the country's spatial structure along a new dimension (Nemes Nagy and Ruttkay 1989). Subsequent studies (Rechnitzer 1993) also attest to a similar spatial divide in entrepreneurial activity, which ran in a West-Easterly direction, while activity in large centres was outstanding.

However, the emergence of predominantly small business units was only one spectacular, but not the most efficient, factor that shaped the new economic spatial structure that evolved after the regime change. The two key processes were

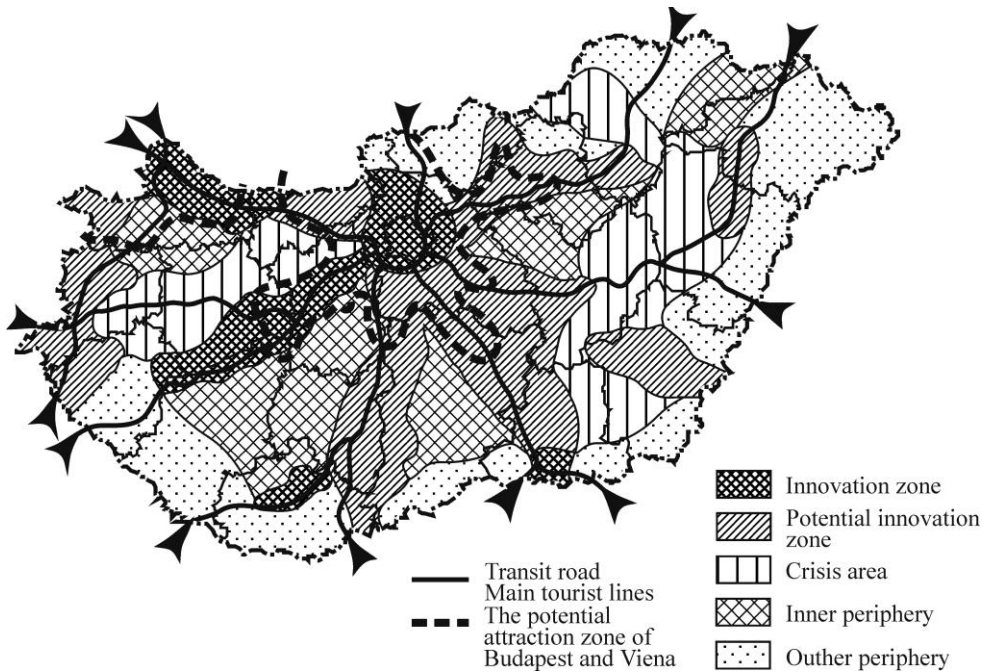
privatisation and greenfield investments, as the amount of capital that was involved in them (especially in the former) was far greater than what was involved during the enterprise boom. The transformation and privatisation of former state-owned (settlement-owned) companies did not have a significant direct impact on spatial structure *in the first phase*, as there was a change only in the owners of existing production capacity. However, the timing of privatisation, the sectors involved, the type of owners vested with decision-making powers, the corporate strategies on which developments were based and the results of these strategies did matter. Thus, in the case of privatisation it was quality components that were key to corporate level success and ability to adjust as well as, from a broader perspective, development prospects for entire settlements and regions.

In the case of privatisation it was existing supply that motivated investors. By contrast, greenfield investments were influenced by the market, logistical positions, accessibility, existing professional culture and the tradition of co-operation, depending on investors' objectives. As regards privatisation, spatial inequalities of supply and the end of the privatisation process strengthened the economic position of the capital city and its wider space and that of Northern Transdanubian counties. However, the real cause of a dramatic increase in spatial inequalities was the regional distribution of greenfield investments. The regions which investors prioritised were practically identical to the space referred to in connection with privatisation, except that greenfield investments targeted rural space, the Austro-Hungarian border zone, the Vienna-Budapest axis and the capital city's wider agglomeration space (Figure 8.2).

Inequalities in the spatial distribution of enterprises, privatisation and even greenfield investments alone would not have led to such sharp spatial differences that they actually did had they not been coupled with the crisis and phase-out of sectors which were the engines of growth in those regions that were less prioritised by capital. A lopsided industry with a wasteful pattern of raw material and energy consumption in former industrialised regions and regional economic models based on large-scale agrarian production as well as related manufacturing and light industry faced crisis. Neither privatisation nor greenfield investments (which, although they did emerge isolated, had no material catalytic impact) were able to help the regions concerned overcome it until the final years of 1990s. Increasingly strong separation between crisis and dynamic spaces engendered inequalities across the country, which in turn transformed the pre-regime change spatial structure profoundly and contributed to the entrenchment of internal division (Figure 8.2).

Market forces during the stages of development in the transition period – crisis, economic downturns, consolidation with time lags and spatial delays and rapid economic growth followed by more lacklustre growth after the turn of the millennium – added to regional inequalities. This dichotomy was clearly reflected in inequalities between the capital city and the provinces, those within rural areas and in the level of development of the constituents of the settlement network. Experience confirms that spontaneous forces in the Hungarian market economy, which, in

Figure 8.2 Potential spatial structure of Hungary



Source: Rechnitzer (1993).

essence, operate along neo-liberal principles, undoubtedly generate inequalities and division rather than integrate regions with different potential and relative advantages.

The state development policy of the time also adopted neo-liberal principles, prioritising the sectoral approach over the regional one. This approach focused mainly on improving the competitiveness of the country as a whole, setting a pace of economic growth exceeding the EU average and narrowing the productivity gap. It addressed social and regional tensions arising from, among other things, job losses, a lack of investments and less attractive investment opportunities through case-by-case interventions on the wrong scale. What further exacerbated the situation was that the state itself as a key investor¹⁰ contributed to spatial inequalities significantly¹¹.

Regional development and spatial planning, for which a legal background was provided in 1996, was hardly able to finance material developments or materially influence the development trajectories of the individual regions for lack of funds. Contrary to appearances (the number of tenders submitted, that of successful tenders and the amount of the funds granted), the Széchenyi Plan, initiated by the Orbán government in 2000, added to an already large number of differences between the

individual regional units and settlements through its projects directly associated with the economy.

Although it is still too early to assess the impacts of the National Development Plan for 2004–2006 (some of the tender opportunities have not even opened up and the majority of the tender procedures have not yet been completed), the subjects of the calls for tenders reflect the survival of an earlier logic. This is hardly likely to be conducive to more even spatial development through the involvement of EU funds (more specifically Structural Funds). The current position of the central budget offers limited leeway for development projects financed through the involvement of domestic funds. Raising funds for national co-financing in order to secure EU funds puts financial stress on the individual Ministries. Given the circumstances, it is sheer naivety to expect sectors to adopt a development policy that accords priority to the principle of regionality, and this is hardly affected by the fact that, compared to earlier years, regions, key units of area development, have control of a greater share of their dispersement funds. (Ninety two percent of the funds transferred by the central government are dedicated funds rather than all-purpose ones and serve sectoral rather than regional interests.)

Spatial developments in economic indicators and changes in income positions move in parallel. That the proportion of wage earners is higher, that of the unemployed is lower and labour is better paid in dynamic regions are not the only explanations. Material spatial inequalities are also discernible between more affluent and less well-off regions and settlements even in the case of the public sector, frequently criticised for its size, where, in principle, spatial inequalities are equalised. Differences on a similar scale are also detectable in the pension scheme. A slope running in a West-Easterly direction, though less steep than the one in the private sector, is also present in sectors under government control. Lower income is not coupled with lower costs of living. The financial value of the key components of wealth (i.e. land and housing property) held by families in lagging regions is a mere fraction of their counterparts in dynamic regions, which dampens willingness to move from stagnating or lagging areas to those perceived as successful.

The era of transition was, without a doubt, that of spatial differentiation in Hungary, and with a decade and a half having passed, it proved right the spatial models that expected moderate initial differences to grow into marked regional differentiation and projected the persistence of such differences.

Measurement of Economic Distance by Means of Potential Models

Potential models included in the category of spatial models based on physical analogies are hardly used by geographers, demographers or economists in Hungary. These models emerged in international literature as part of what is called the quantitative revolution (Stewart 1948). Although there have been a few pioneering studies seeking to define demographic and transport potential, subsequent investigations have been far and few between. A summary of geographic approaches has been provided by Haynes and Fortheringham (1988) in the Anglo-Saxon literature and by Nemes Nagy (1984, 1998) in its Hungarian counterpart.

Results of Model Calculations

The objective of the first approach was to define the economic distance between the individual units and Budapest, the economic hub of Hungary, as well as changes in it, by calculating the potential of two spatial levels (regions and counties) at two points of time. Although the model is mainly suited for carrying out cross-section type studies (Nemes Nagy 1987), two ‘snapshots’ taken at two different points of time can indicate trends and provide for the possibility that changes in the ranking order may be analysed. We carried out studies for 1995 and 2001. The underlying reason for the selection of the years was that we wanted to ensure that a satisfactory amount of time had passed between the times of the two investigations so that possible shifts could be identified. Furthermore, although county/regional GDP data have been available since 1994, the method of accounting was somewhat different then from what came to be applied to data in later years. Thus, 1995 seemed the first obvious choice, while the most recent data series was the one for 2001.

In calculating the potential, we used the following formula:

$$P_i = G_i/d_{ii} + \Sigma(G_j/d_{ij}) \quad (j=1, \dots, n; j \neq i), \text{ where}$$

P_i is the economic potential of the spatial unit i ,

G_i/d_{ii} denotes the ‘internal’ economic potential,

$\Sigma(G_j/d_{ij}) \quad (j=1, \dots, n; j \neq i)$ is the ‘external’ economic potential, where

G_i and G_j represent the economic weight of the spatial units i and j respectively,

d_{ii} is the estimated intra-regional distance calculated in the following manner:

$$d_{ii} = (T_i/\Pi)^{0.5}/3, \text{ where}$$

T_i represent the size of the spatial unit (counties and regions) under review,

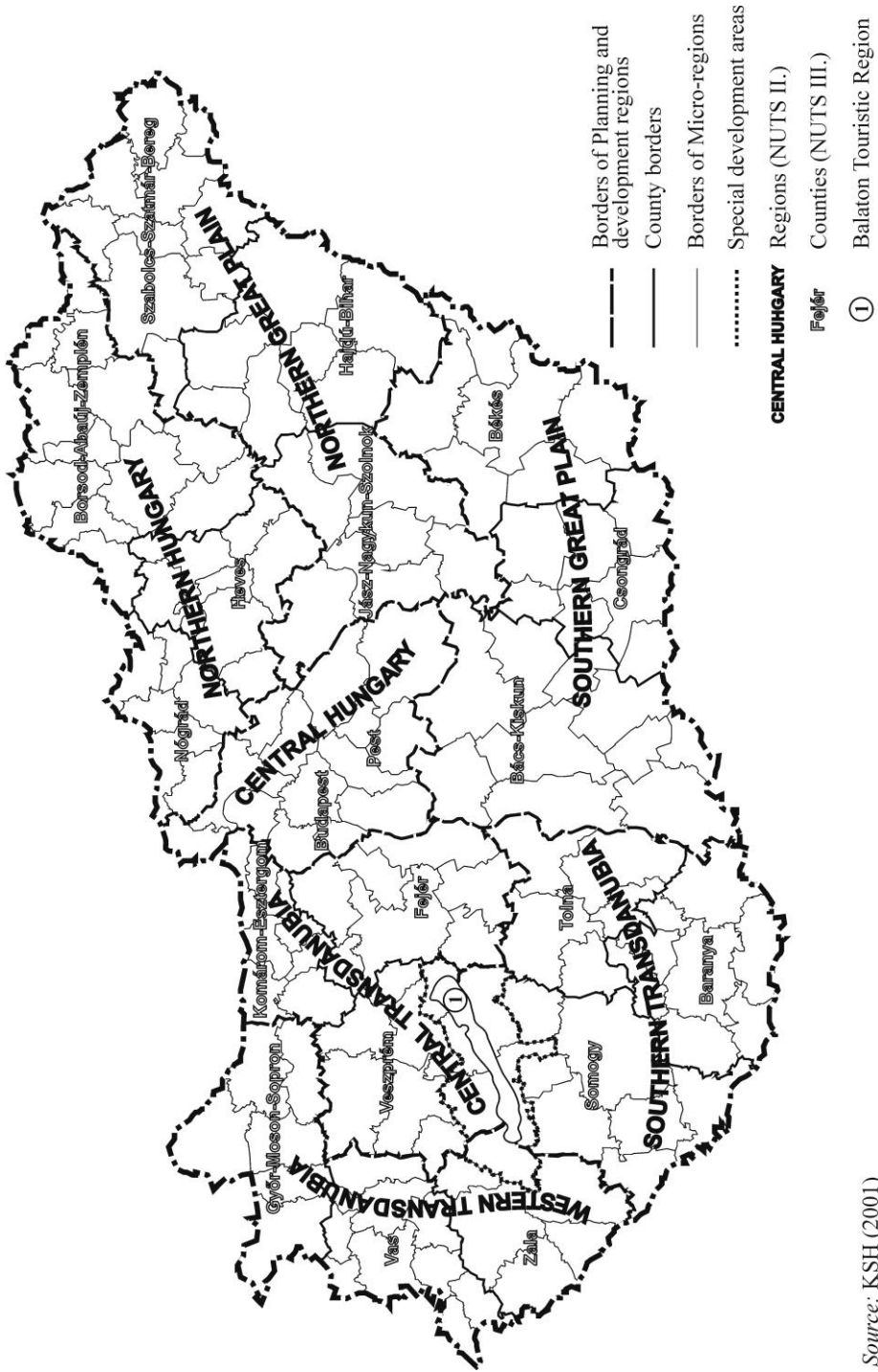
d_{ij} denotes the distance between the spatial units i and j .

As a result of the calculations, regional and county-level shifts and the extent of changes could be identified. Thus, a fundamentally static model was dynamised, which in turn allowed for fuller utilisation.

On the regional level, compared to Central Hungary, potential declined in all provinces between 1995 and 2001. The reason for this was Budapest’s outstanding development and a higher-than-average growth rate (converging towards to county average) in Pest County. Differences in potential among regions grew between 1995 and 2001, which was, in a large part, attributable to differentiation between actual economic performances (Figure 8.3). It is highly remarkable that not even regions that took the lead in the development of the manufacturing sector were able to keep pace with the rate of development in the capital city and its wider agglomeration at a time when industry was still key to economic growth.

For both points of time, the potential values of the individual counties were scaled on a five-degree scale (outstanding, above average, average, below average, low level). In 2001 the last category was further differentiated. It was hardly surprising that there had been no changes in the top three categories. The same counties were included in them in 2001 as had been in 1995; only the ranking order changed within the individual categories. Even more importantly, the economic potential of those counties that had been included in the outstanding or above

Figure 8.3 Territorial administrative units in Hungary, 2001



Source: KSH (2001)

average categories were better than those of average counties despite the decline that they had experienced¹².

Of the 19 counties, 17 saw the value of their potential fall, to a varying degree of course, between 1995 and 2001 (Figure 8.4). It is striking that the counties where the centres of large disadvantaged regions with low dynamics are situated should all have been in the lower categories. In light of available data, the effectiveness of the developments implemented in counties in North Hungary and the Northern Great Plain, a top priority of national regional policy, can be called in question. In the counties of the Southern Great Plain and Southern Transdanubia, put on the back burner by regional policy, have been precipitated into a fall since 1990.

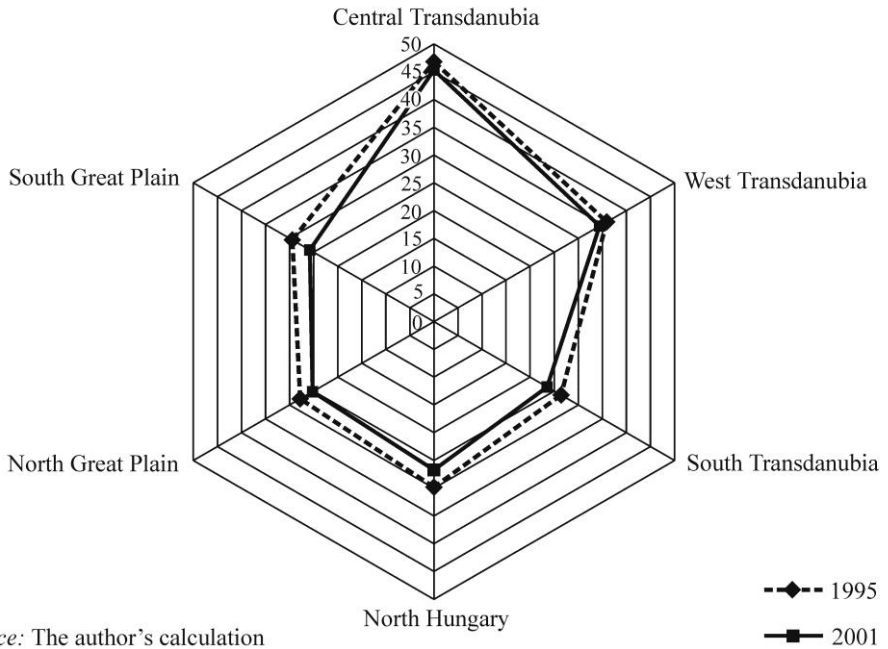
Periphery research¹³ led by Csatári provided for the possibility that the model could be differently utilised. Relying on it, we sought to outline the country's economic spatial structure. The objective was to shed light on economically disadvantaged spaces and provide decision-makers a mathematical model to enable them to follow changes. The model also afforded us to set a more general objective. It enabled us to delimit the country's economic centre in the economic sense and identify disadvantaged and multiple-disadvantaged spaces.

In calculating the potential, we used the formula employed earlier. Although the basic formula is easy to use, in order to render calculations easier and for methodological reasons, we made partial adjustments while calculating external potential. The potential generated by the remaining regions of their own county was separated from that arising from the impact which external counties exerted on the region concerned. The separation allowed for the possibility that the extent of economic dependence on the centre of the country could be identified.

The results of the calculations show a sequence of zones constituting a concentric structure, slightly elongated to the West, with Budapest as its indisputable focal point. Central, semi-peripheral, transitional and peripheral zones can be delineated. What is important from the perspective of spatial structure is that there are hardly any 'islands' outside the zones, which underlines the limited strength of local economies, compared to Budapest and Central Hungary (Figure 8.5). The emergence of micro-regions in counties that take the lead in structural transformation and economic development on the peripheries indicate that, on a whole-economy scale, proximity to the capital city is a crucial factor of economic prosperity. Thus, the farther spaces are from Budapest, the more limited the possibilities of long-term development¹⁴. The spatial concentration of peripheral spaces is high, which provides for the possibility that the primary or classic regions of rural development can be identified especially in East and Southern Hungary.

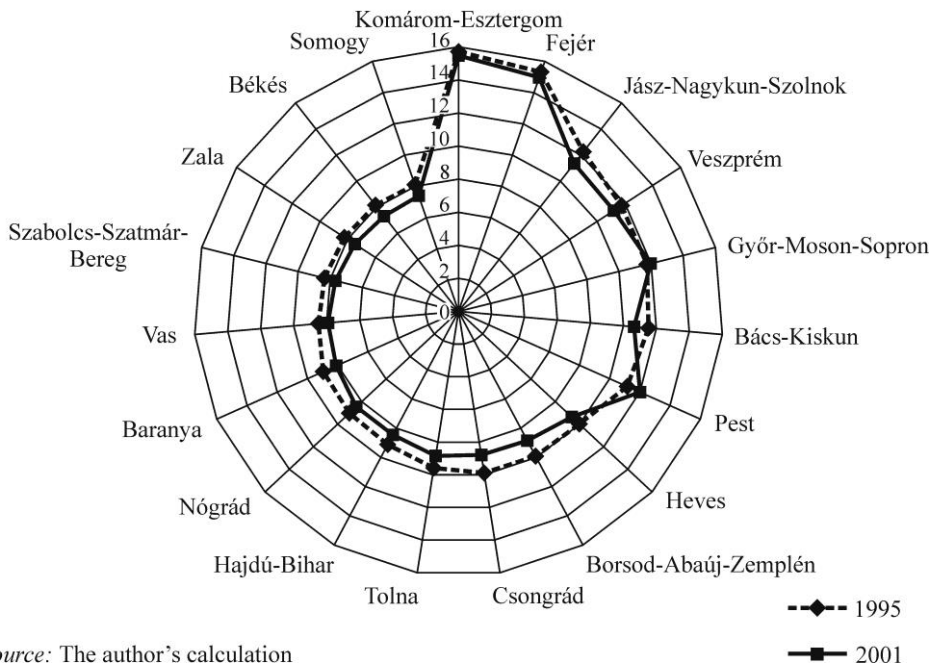
The actual contribution of internal (own) counties to the development of certain regions is discernible in counties where local economies are strong, in the narrower field of gravity of the capital city in particular. Komárom-Esztergom County, where the cumulative dynamising effect of several strong economic centres is present in the external potential of regions, represents a special model. A certain group of regions with low scores includes the counties of regional centres, where economy is mostly concentrated in one centre and the development of micro-regions is hardly

Figure 8.4 Changing potential of regions, 1995-2001



Source: The author's calculation

Figure 8.5 Changing potential of counties, 1995-2001



Source: The author's calculation

boosted by the remainder of the county. By contrast, they provide significant additional potential for the rest of the micro-regions in their own counties.

In the case of contribution by external counties the values of the potential of micro-regions clearly reflects concentric location around the capital. Sometimes even regions where both internal potential and own-county contribution are low appeared at the top. The amount of the development impulse provided by external counties, especially the capital city and Pest County, alone is large enough to lift the region in question from its peripheral status. The status of Pest County is special, since although the impact of Budapest was allowed for when own-country contribution was calculated, its incidental scores are rather poor. The remaining regions with low scores show clear territorial distribution: they constitute those regions of Western, South Western and Eastern counties which are the farthest from Budapest. While in the case of internal potential the lowest scores were 0.5–5 points and in the case of own-county contribution they stood at 3.8–14.8, the contribution by external growth impulses to the total potential value meant 91.4–179 additional points, i.e. a far stronger impulse than the first two components combined.

The influence of Budapest on all the micro-regions of the country is significant and decisive on most. Given its outstanding economic clout, it is distance from Budapest that primarily accounts for the scores that a region has. Even in the case of regions that are the least dependent on the capital, the share of Budapest in the total potential is 27.6%, and the regions where the ratio is below 45% can be considered as less dependent. They are mostly large urban spaces with strong local economies and at quite a distance from the capital. In terms of potential values, the most dependent spaces are predominantly in the central regions of the country. Within them, the strength of local economies and the power of growth impulses provided by their own counties are factors of differentiation.

Budapest's contribution to the development prospects for local economies in all the other micro-regions is below 10%. Although this is not an accurate indicator, it means that the development of Budapest is much less dependent on economic processes in the country than vice versa. It proves that Budapest, whether we like it or not, is a key actor in Hungary's economic success and convergence with other member states in the EU.

The potential model outlines the territorial centres of the Hungarian economy. Investigations for several points of time provide for the possibility that changes to absolute and relative positions can be described. By virtue of its content, the model not only reflects the economic strength of a regional unit measured in itself, but it also provides a clue to the state, potential and dynamics of the economic environment in the region/county affected. It also paints a picture of the possible development prospects, accepting the assumption that nearer economic spaces have a more significant impact on the development of the relevant spatial unit than more remote ones.

The advantage of the model is that it is easy to reproduce and that it does not require special mathematical knowledge. It can be divided into components, of which the inner proportions reflect the role of the unit's own economic power, own counties and the rest of the country and, within this, the capital city in the potential,

i.e. their impact on the region. The agglomeration impact can be detected not only in Budapest, but also in the provinces at a smaller scale, though. Overall, a map of the potential values produced by the model paints an accurate picture of Hungary's spatial structure, in which the country's economic centre, transition zones (semi-peripheries) and semi- and total-peripheries can be identified.

The fundamental flaw of the model is its exclusivity to the national economy. Transboundary impulses should also be measured; however, towards this end methodological issues must be addressed. The calculations that we made were based on several assumptions which require further testing. Furthermore, it can present only a momentary state, as it is unable to detect the economic effects of major one-off fixed investment projects. Therefore, no region can be labelled as absolutely backward or successful merely on the grounds of the results that the model produces. Results are only indicative of how regions fare in a national comparison at a given point in time¹⁵.

Proximity to the national centres of economic power is advantageous for the growth of economic potential. Peripheral location, even in the case of an initially favourable position, nearly always leads to significant reduction in economic potential in the course of market-based development. Regional policy in Hungary between 1996 and 2001 hardly led to any measurable results, its only impact being the mitigation of economic decline (Szabolcs-Szatmár-Bereg County); sometimes, not even that (Borsod-Abaúj-Zemplén County). Regions with a favourable geographical location and prioritised by state investment policy rose to a higher position, almost irrespective of their own economic performance.

Conclusions

Amin (1976) relied on the uneven distribution of power in formulating his theory on the centre-periphery relationship. Core regions concentrate economic power and control technological advance and production through an unequal exchange. Moveable goods, resources and the value added created during production flow from peripheries to centres in order to support the further development of the latter. The autonomous development of peripheries (i.e. development independent of centres) becomes increasingly difficult, as centres devise decision-making mechanisms that suit their own interests¹⁶.

Storper and Walker (1989) argue that the main shaper of regional differences is the spatial expansion of production, i.e. the selection of global premises, which, by the 1980s, had become a more important cause of uneven spatial development than trade (unequal exchange). Krugman (1991) adds that an aggressive sectoral and regional policy and new background conditions (i.e. new economic paradigm) may provide for the possibility that new regional units may rise to a higher position and that the current spatial structure of geographic concentration may be overhauled. The essence of Krugman's conclusion is that mobile capital must be offered outstandingly favourable conditions for investment, ensuring the possibility of earning high returns¹⁷.

In reality, only dominant societies can develop organically through the exploitation of their internal resources on a close to optimal level. Dependent societies can only grow as a proportion of the needs of dominant actors, which they, in a sense, reflect. The example of emerging markets suggests that their spectacular development, which can be attributed to the establishment and operation of a market economy, is highly dependent on the control of global and supranational organisations (especially global financial markets). There are serious social risks inherent in this development path, since an asymmetric system of relations can easily dismantle the social structure of a dependent country, while the latter only scratches the surface of the system which operates a dominant society.

Subsidiaries of multinational companies, which have become key actors in local economies, and local suppliers and subcontractors which do business with them are cogwheels in the machinery of capital flows concentrated and controlled by external decision-making centres. The reason why they are involved in global economic trends is to realize extra profit. Local decision-makers' room for manoeuvre, controlled by a network of national and international regulatory systems and institutions, has become rather limited. Nevertheless, the development of centres depends on whether or not there is an under-developed periphery and on the persistence of spatial inequalities. Yet, this interdependence, no matter how one-sided it is, does provide some space for local initiatives, actions and development. In consequence, genuine development, convergence with more developed regions and reduction in one-sided dependence may, nonetheless, materialise. Successful restructuring, which also presupposes a change in economic policy, may easily lead to higher rungs in the global ladder.

The dependence of large urban regions on peripheries is stronger than it looks. This was the message of the Brandt Reports (1980, 1983). The reason for this is that while peripheries may decide to opt out of global trends and establish a relationship with centres that offer better development opportunities, thereby easing their dependence on core regions and expanding their leeway, opting out of global trends as an alternative is out of the question for metropolises with a central role. If their peripheries shrink, their supply position available for mobile capital deteriorates, which feeds into a decline in the volume of investments and competitiveness.

The supply of traditional economic resources alone can no longer attract mobile capital. The high-quality provision of the widest possible range of external conditions is becoming increasingly important at least with respect to target activities. This leads to the evolvment of specialised local and regional economies which are concentrated in space. Underdevelopment on a regional level is, usually, associated with unbalanced spatial structures. For regional units, the token of their own development is good working conditions maintained with remote centres rather than co-operation with neighbouring regions or seeking joint solutions to problems¹⁸.

Marxist geographical approaches (Harvey 1982; Smith 1984) speak of the uneven distribution of power, which involves spatial inequalities, be they direct or indirect control, the organisation and reorganisation of space through established networks or the utilisation of technological and innovational advantages. They

identify ownership, or rather the unequal ownership of the means of production, as the cause of unevenly distributed power. Actors with the greatest power organise space and processes in it and channel profits to themselves, which generate class divisions manifesting themselves in social, economic and political conflicts. A privileged minority even uses public officials to reach their goals, while letting them have some of the profit¹⁹.

Uneven spatial development heavily exploits temporal and structural differences in the level of development of the individual regions. Today Europe's most advanced urban regions mostly follow a post-industrial path of development. Those regions whose convergence was spectacular in the 1980s (e.g. Southern Germany, Southern France, Catalonia, the Third Italy) owed their dynamic development to industrial production based on post-Fordian principles and flexible specialisation. The implementation of the new production model was accompanied by vigorous economic restructuring, with new, often 'imported' sectors becoming the engines of local/regional economic growth. This upswing can only be temporary, since – apart from activities that are cutting edge even in global comparison – competitors offering cheaper wages possess comparative advantages today. As Smith (1984) put it, in the movement of capital oscillation can be detected among underdeveloped regions, which does not transform existing power relations fundamentally.

The evolution of centres and peripheries in the Hungarian economy is not independent of the above global processes. While government policies accord high priority to Hungary's soonest possible convergence with leading economies in Europe, a large part of the country is unable to follow the pace of development set by the capital city and a significant part is falling behind the EU average. Although a large group of relevant regional theories set great store by government policies, Hungarian regulatory and control policy is dominated by (outdated) beliefs in the omnipotence of the market. Except for ad hoc measures aimed at managing crisis situations, no complex spatial policy is in place on a government level. It is true that neither parliamentary nor extra-parliamentary forces have as yet put forward an effective strategy that could be interpreted as a response to the challenges posed by this area.

NOTES

¹ They found their purest form in the National Regional Development Concept (1997).

² In analysing motives for FDI, Dunning's eclectic theory (1988) offers similar conclusions.

³ Since the 'cultural turn' of the 1970s, a new paradigm in geography arised which rejects spatial models due to their mechanical nature and formalism. It is the new social geographical streams (i.e. behavioural approach, humanistic and radical geography) that criticise these models the most adamantly. Their most frequent objection to them is that they ignore real space and the scale of spatial processes (Martin 1999).

⁴ Although MSZMP KB (the Central Committee of the Hungarian Socialist Workers' Party) passed a resolution on the industrialisation of the countryside in as early as 1958, its implementation only began in the mid-1960s.

- ⁵ In the mid-1950s, despite the first massive wave of construction of large industrial centres, the share of the capital city in industrial wage earners still exceeded 40%, while its population accounted for a mere 19% of the country's population. When the process came to an end in the early 1980s, corresponding figures were 28% and 20% respectively.
- ⁶ It is safe to say that the early 1980s saw the beginning of a process in which the development of the dynamic space of the capital city and that of the provinces ran separate courses. The former was boosted by the services sector, the latter by the prevailing engines of growth in manufacturing.
- ⁷ As increase in the volume of housing construction and the development of institutional and infrastructural networks and welfare systems were closely linked up to industrial investment projects at the time. Securing a high-profile government-funded investment project provided an excellent opportunity for the development of the settlement concerned and its region.
- ⁸ János Kádár was the leader of the communist party from 1957 to 1987.
- ⁹ The existence of a 'second economy' was instrumental in transition into market economy and in the establishment of enterprises.
- ¹⁰ Central government investments accounted for 20%-25% of the total volume of fixed capital investment, in contrast to the weight of economic participants, which represented nearly two-thirds.
- ¹¹ Calculations attest that the contribution of the central government to spatial inequalities amounted to 17%-18% in the 1990s.
- ¹² Chances for convergence became increasingly slim, while those for lagging increased in all three categories.
- ¹³ Commissioned by the Prime Minister's Office and co-ordinated by the Great Plain Research Institute, Centre for Regional Studies, Hungarian Academy of Sciences in 2003.
- ¹⁴ One of the limitations of the model is that by using a whole-economy scale, it fails to allow for transboundary development impulses, which leads to significant reduction in the value of regional potential, especially in the border zone in West Hungary.
- ¹⁵ However, in an increasingly global economy, physical distance plays a diminishingly important role in establishing chains of production and sales; it does not stop to exist altogether, though.
- ¹⁶ Criticism has been voiced of the causal link according to which the social concentration of power entails the evolvement of the role of a spatial hub.
- ¹⁷ Although the deconcentration of production and the decentralisation of certain components of decision-making could reshape the global economic landscape, if control over the key components of the production chain is retained, no fundamental change occurs in the global economy.
- ¹⁸ The model worked out by Slater (1975) for developing countries can be applied to spatial processes and the regional practice of communication in Hungary.
- ¹⁹ This does not mean bribing directly government officials. In return for the passing and implementation of decisions in favour of capital, the possibility of access to information and participation in decision-making are provided.

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Chapter 9

The Role of Foreign Direct Investment in the Spatial Restructuring of Hungarian Industry

Györgyi Barta

Industry in the Last Years of Socialism

Macroeconomic industrial indicators, at least those listed in official publications, did not point to a crisis. Statistics did not show what price was to be paid for sustaining economic structures unchanged (in order to finance growing investments, foreign trade and budget deficits, inefficient employment and heavily indebted large companies). Industrial GDP was slowly increasing in the early 1980s, declined in absolute terms in 1985, but then continued to stagnate until the beginning of the political system change in 1989. Similarly, industrial contribution to the GDP remained stable as well as the 90% share of industrial sectors in exports during these years. It can be concluded, therefore, that the industrial sector was not in a worse state than the entire Hungarian economy at the time.

An *acute labour shortage* seemed to have posed the greatest hindrance to expansive development. The number of active employees began to decrease in absolute terms from 1975 onwards, although more rapidly in the industrial sector than in the whole of the economy. Companies resorted to a number of different means to counterbalance flagging economic growth and downright recession. They tried to fend off labour shortages by looking for unexploited labour resources in the countryside, i.e. in smaller towns and even villages. In the beginning, companies sought to increase the number of commuters by organising and paying for transport facilities (for instance, from the early 1960s commuters filled about 20% of the jobs available in Budapest). When even this source of labour began to run dry, companies started to open countryside branch-plants in large numbers. As a result, in the second period of the socialist economy Hungarian industry was dominated by multi-branch-plant companies. For instance, companies with head offices in the capital opened branch-plants in as many as 600 settlements all over the country (although in smaller proportions, similar tendencies characterised the spatial structures of companies with head offices located in other large towns). Co-operation among compa-

nies and outsourcing (e.g. to agricultural co-operatives, state farms or various semi-private economic enterprises) were alternative means of expanding capacities. These efforts succeeded in relieving industrial labour shortage to some extent but ultimately could not put an end to it. At the same time, they re-shaped company organisation, widened the range of co-operative mechanisms and also created new opportunities for the private sector in the socialist economy.

Especially from the mid 1970s onwards, at the time when developed Western countries began to adopt strategies of intensive technological development in order to counter economic recession, it became clear to managers at many companies that their production technologies were lagging more and more seriously behind technological standards of the day. They tried to keep up with their Western counterparts by expanding R&D activities, and purchasing production-licenses and modern machinery. The only way to finance these aspirations was to rely on state loans. Consequently, top companies became more and more indebted during these years.

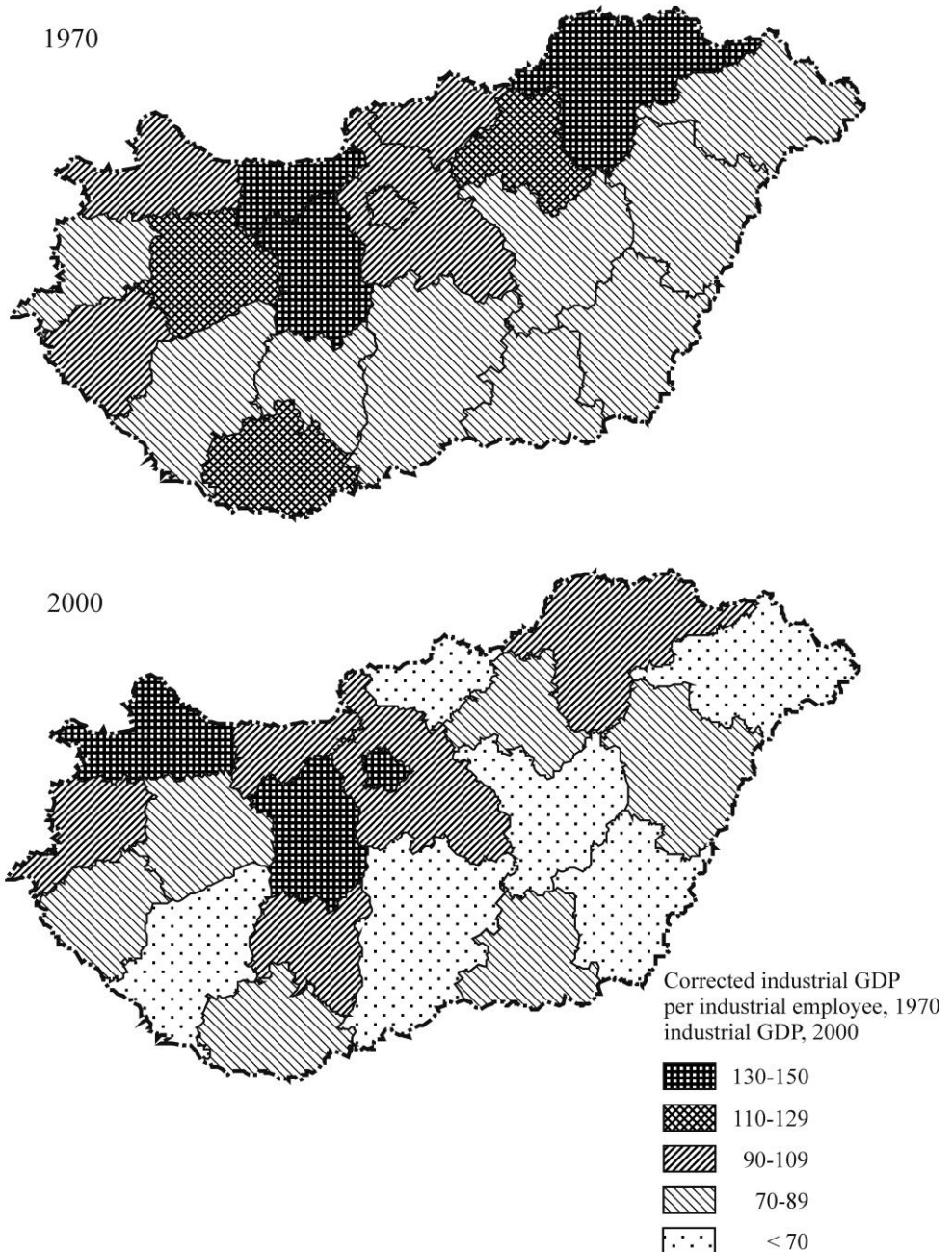
Moreover, these hard-fought strategies of company development were on the whole incompatible with the way in which the state-planned economy generally worked. They could not be efficiently integrated into the economy and were not sufficient to generate further growth. As a result, the shock caused by the system change left companies defenceless and vulnerable (Kornai 1980; Voszka 1988; Szalai 1991; Kornai 1993; Berend T. 1999).

At the same time, the socialist economy was marked by a *significant decrease in regional disparities*. The 1960s saw the recovery of industrially underdeveloped regions, while the 1970s were marked by the restructuring of more developed regions. This regional structure had assumed a stable form by the 1980s. This was accompanied by a further though less significant contraction of the central region, unchanged production figures of industrialised regions and a slight growth of backward regions. The unprecedented geographical de-concentration of manufacturing was largely due to the general shortage of labour which continued in the 1980s as well.

The same tendency could also be observed at the level of towns. The first 30 towns concentrated 89% of all industrial employees in 1966 against only 69% in 1990. At the same time, socialist industrialisation did not bring about a more rapid development of infrastructure in industrial towns or regions and did not impact on the movement of highly-skilled labour (Nemes Nagy and Ruttkay 1989; Enyedi 1996).

At the beginning of the system change, the *sectoral and spatial structure of industry* could be described as follows. The sectoral structure of industry was shaped by an effort to attain greater levels of self-sufficiency, on the one hand, and the exclusive reliance on energy imports from and the export of Hungarian machinery and food exports to the Soviet Union, on the other. Heavy-industry continued to dominate with preference given to mining and metallurgy in the first phase and to chemical industry in the second. This remained the case despite the fact that conditions in Hungary were not very favourable to the development of the pertaining

Figure 9.1 Spatial development of industry in 1970 and 2000



Source: Barta, 1973; Regional Statistical Yearbook of Hungary (2000)

sectors (the share of heavy-industry accounted for 66% of gross industrial production and 60% of the total workforce in 1985). At the same time, the share of labour-intensive sectors (e.g. textiles and clothing) and that of the food industry stayed high.

In terms of contribution to the GDP, employment as well as productivity, a strong *North-South divide* was the main feature of the *territorial* location of industry. More important segments of industry were all situated in the Northern part of the country: mining, metallurgy and chemical industry in the Transdanubian region and in the mountain region of Northeast Hungary, Budapest's more complexly-structured industry (dominated by machine, chemical and food industries) as well as the machine, textile and food industries of the Northern Transdanubian region. About 75% of the country's industrial GDP was produced in Hungary's Northern regions. Southern parts of the country had a higher share of light-industry and food industry. Industrialisation in the Hungarian Great Plain was mainly restricted to a forced increase in the number of industrial jobs. Less attention was given to the modernisation of sectoral structure and the launching of locally-based economic and industrial activities (Figure 9.1).

The Focus of FDI on Industry after the System Change

By the turn of the century, FDI had deeply penetrated the Hungarian economy. It began to assume a crucial microeconomic as well as macroeconomic role becoming a decisive factor in the ownership, sectoral, employment and spatial structure of the economy. In addition, it has been the driving force of technological development. It is no exaggeration to say that the best way to understand current developments in the Hungarian economy, together with all of its significant constituent parts, is to focus on its interaction with FDI. Economic successes and failures of recent years and the country's fluctuating economic performance are all mainly to be attributed to activities of foreign companies located in Hungary (Pitti 1999; Barta 2002).

FDI reached a peak in Hungary in 1995. After this year, the level of foreign capital investment gradually began to decline. The rate of decrease became faster from 2000 onwards (Table 9.1).

Table 9.1 Growth of FDI in Hungary

Year	Number of economic organisations	Growth of foreign capital (% , previous year=100)	
		market value	registered value
1995	24 612	69.0	68.4
1996	25 670	31.5	33.5
1997	26 083	70.0	34.5
1998	26 265	22.2	28.7
1999	26 435	28.6	24.3
2000	26 634	10.8	23.6
2001	26 809	12.9	19.6
2002	26 797	11.2	12.3

Source: FDI in Hungary 1995–2002, KSH 2004.

Most commentators believe that the first period of FDI in Hungary has now come to an end. Clearly, decreasing levels of FDI in Hungary are partly caused by international trends. International FDI reached unprecedented levels in 2000, but fell significantly, almost by 50%, in the following year (Kalotay 2003; Erdey 2004). Specifically Hungarian factors played a part as well, however. Most importantly, features posing the greatest attraction in foreign investors' eyes at earlier times – i.e. a combination of liberal economic policies, a relatively cheap workforce, quickly-adjusting company managements, an overall advantage in time relative to rival Eastern Europe countries, in short, the general appeal of the Hungarian economy – have gradually disappeared. Large-scale privatisation had come to an end by 1997. Foreign investors in search of new markets had already acquired their share; regions most favourable to FDI had reached high levels of saturation (Csáki 2000).

In order to continue the former success story, i.e. not only to acquire more FDI but also to keep foreign companies in the country, would require a determined effort to eliminate factors which presently hinder the further influx of capital. In general too, more innovative economic policies are called for. Few signs of this change could be observed until now. It is true that the year 2002 brought a return to export-driven economic growth. At the same time, in comparison to surrounding countries Hungary is still unable to offer special advantages to foreign investors. The existing system of investment incentives, progressive at the time of its adoption, also has begun to lose its former appeal. As a result, Hungary was relegated to third place following Poland and the Czech Republic in terms of FDI, although it still claims second place in terms of per capita investments (Barta *et al* 2003).

As far as the *sectoral structure of FDI* is concerned, the share of industry, and in particular that of manufacturing, is quite high. Hungary ranks among the countries where companies in foreign ownership command a particularly great share of manufacturing (close to 70%). There are both general and specific reasons why foreign investors have focused on manufacturing.

The general reasons are as follows: Immediately after the 'change of system', Hungary offered attractive incentives to foreign investors following the example of Mexico, Ireland and others (Swain 1998). Low production costs, especially relatively low wage levels, constituted the main attraction at the time and continue to do so today. In addition, foreign investors welcomed the resolute and speedy implementation of reforms required by the transition to a market economy. Political and economic stability were never seriously at risk during the transition years. Finally, Hungary could boast an advantageous geopolitical location and a somewhat more developed economy than its Eastern European counterparts (Lengyel 2000).

But there are also special reasons for the heightened interest of FDI in manufacturing. These included the specifically Hungarian approach to privatisation in the course of which a wide selection of large industrial companies was first offered for sale to foreign investors. Although some greenfield investments were also launched immediately after the transition, the special direction of the privatisation process also contributed to the greater role of FDI in manufacturing.

Table 9.2 Changes in the sectoral distribution of FDI capital between 1995 and 2002 (%)

Sector	1995	1998	2000	2002
Agriculture, mining	1.8	1.4	1.1	1.4
Manufacturing	36.7	34.2	37.9	46.3
- food industry	10.8	6.8	6.3	6.2
- production of chemicals, consumer goods, etc.	4.4	4.9	7.3	12.3
- electrical machinery and appliances	4.9	7.0	7.4	7.7
- vehicles	3.2	4.5	6.5	9.1
Industry and construction	59.3	47.8	46.9	52.6
Services	38.9	50.8	52.0	46.0
- trade	9.1	7.7	7.9	9.9
- logistics, telecommunications	13.0	28.0	21.1	12.6
- financial services	10.4	6.9	8.9	9.1
- real estate	4.1	5.4	10.7	10.8
- other services	2.3	2.8	3.4	3.6
Total	100.0	100.0	100.0	100.0

Source: FDI in Hungary, 1995–2002. KSH, Budapest 2004.

From the mid 1990s until the turn of the century, however, a clearly observable shift took place at the expense of manufacturing and in favour of the tertiary sector. In the sectoral distribution of registered capital from FDI, the share of manufacturing decreased from 56% in 1991 to 37% in 1999. After 2000, however, the share of manufacturing once again started to increase significantly and permanently (Table 9.2).

Various questions arise in connection with the structural changes of FDI:

- What explains the renewed growth of the share of manufacturing in the sectoral structure?

On the one hand, sources of FDI have been changing: the share of ploughed-back profits from foreign investments is increasing (already as much as 66% in 2002). In other words, newly-established enterprises no longer dominate as the main source of FDI. They have been replaced in this role by the expansion of already existing companies. This has led to a consolidation of former structures.

On the other, manufacturing and business service activities have become more and more interconnected. In the beginning, location and production of manufacturing companies and multinationals required basic infrastructural investments in telecommunications, the financial sector and business services. Most of these investments had been successfully completed by the end of the 1990s. Since then, however, few significant advancements have been made in the tertiary sector. This negative conclusion applies both to the lack of more sophisticated technologies in modern sectors and new functions (e.g. R&D) and to the failure to develop alternative regional centres in Hungary.

- The other question concerns the correct evaluation of the spectacular accomplishments of the manufacturing sector. Can this be taken as proof positive of the recovery of the Hungarian economy? Or does the renewed expansion of industry

indicate, on the contrary, that Hungary continues to occupy a peripheral position relative to all those developed countries which have undergone massive tertialisation in the post-industrial age? Or should we rather place Hungary on the 'semi-periphery' together with those countries that have shown significant progress in recent years?

The production of knowledge has increasingly become the privilege of developed economies as a result of the unequal development of our globalising world. By contrast, routine industrial mass-production has been relegated to the peripheries. Due to the decisive role of multinational companies, control is becoming more and more centralised, while production is carried out in de-centralised units. From a neo-Fordian perspective, however, this does not necessarily have negative implications for the developing world. This is because this production model has enabled many newly-industrialised countries (e.g. in Southeast Asia) to reduce the gap separating them from their developed counterparts (Castells 1989; Allen 1992; Kozma 1998). The best answer to the question whether breaking out of a peripheral or semi-peripheral position can be based on the industrial sector seems to be that any means, model or structure that promotes social and economic modernisation and generates growth rates above those of developed countries can help to reduce the distance from the world's economic elite.

Hungary's economic recovery as well as that of all semi-peripheral countries with FDI-driven development depends crucially on the establishment of networks of interaction among domestic and foreign companies. The nature of FDI in question will determine whether foreign investments create a constructive, forward-looking situation for economic actors of the receiving country, or impose on them a position of utter dependency. In the progressive model, foreign companies rely on highly-skilled labour with activities based on co-operation with companies of the recipient countries generating significant added value. Long-term investments are expected to dominate. In this model, foreign companies will be deeply embedded in the local economy giving rise to complex interactive networks that can effectively contribute to the expansion of domestic companies and the economic growth of the regions concerned. By contrast, in the dependency model, FDI tends to be short-run. Foreign companies are only loosely interconnected with the local economy; their embedding is slow and superficial, their local subcontractors use outdated technologies. Co-operation among foreign and domestic companies is poor, being vulnerable to extraneous forces and decisions taken in the head offices of foreign companies abroad.

Disparities between foreign and local companies in Hungary in terms of size and especially in terms of capital supply are considerable. Foreign companies on average are three-times larger (on the basis of the number of employees) than their Hungarian counterparts, four-times larger in industry and almost five-times larger in the food industry. The capital supply of foreign companies exceeds those of Hungarian enterprises about ten times, sixteen times in the food industry and almost twenty times in industry in general. Their overall productivity is more than double, triple in industry and almost six-fold in logistics and telecommunications.

Two main factors impact crucially *on current relations among foreign and domestic companies* in Hungary: the relative backwardness of the Hungarian economy and its technological handicap, on the one hand, and the comparatively short history of FDI operations in the country, on the other. The share of Hungarian subcontractors to foreign companies is at around 10-20%, not exceeding 10% in the case of multinational companies.

The circle and share of Hungarian subcontractors has been changing only very slowly. What is more, these changes are often brought about by the appearance of foreign subcontracting networks in Hungary. In any case, few Hungarian small enterprises have been able until now to qualify as direct subcontractors of multinational companies.

There is a marked disparity between the respective subcontracting networks of large Hungarian and foreign companies. Domestic subcontracting networks of foreign companies tend to be much smaller than those of Hungarian enterprises. The latter rely much more extensively on input originating from Hungary than do foreign companies. This demonstrates that it takes a long time for networks among companies to develop. The choice of business partners depends on familiarity with local conditions, trust as well as a better acquaintance with each other's economic activities (Makó et al. 1997). Multinationals, foreign and domestic large companies and their foreign and domestic subcontractors export mainly to the EU market, whereas Hungarian SMEs trade predominantly with countries of Eastern Europe and ex-Soviet republics (Kopasz 2001).

In the early 1990s when the flow of FDI to Hungary began, experts used to talk of the emergence of a *dual economy* not only because there was such an enormous difference between foreign and domestic companies, but also because there was hardly any interaction between these two groups. In this period, foreign companies constituted an enclave within the Hungarian economy (Barta 2000). Closer to the end of that decade, the isolation of foreign companies began to go back somewhat, although co-operation still leaves much to be desired. A series of empirical studies conducted in Hungary and in Eastern Europe at large have shown that the influx of foreign companies into a given region exerts a positive influence on the productivity of local companies as well (Fazekas 2003). The mere passing of time, however, will not in itself enhance co-operation among foreign and domestic companies. This is well illustrated by the case of Mexico's so-called *maquiladora* economy. Even after 25 years, the share of Mexican products and services in the production of foreign companies amounted to as little as 1.9% (Árva 1999). Only resolute economic policies can encourage foreign investors to rely on Hungarian subcontractors and help domestic companies (mainly SMEs) to qualify as better subcontractors (as witnessed by the example of Hungarian Suzuki).

The Role of FDI in the Regional Differentiation of Industry

Location of Foreign Investors

The location of foreign companies can be traced back to two principal factors: the search for new markets, on the one hand, and accessibility and low costs of production factors, on the other (Dicken 2000). Corresponding to these factors, *horizontally* and *vertically operating* capital can be distinguished. Horizontally-structured multinationals produce the same good in their subsidiaries whatever country these may be located in. The main advantage of this mode of production is that it provides access to local markets (lower marketing costs and strategic advantages). By contrast, vertical FDI seeks to profit from the splitting up of the production process into separate parts. This strategy is based on the recognition of the fact that availability and price of different production factors vary from one country to the next and so do economic incentives for FDI (Erdey 2004). Vertical FDI has been more characteristic of the Hungarian economy.

Foreign companies first select the *target country* on the basis of macroeconomic indicators, the stability and development of the business environment as well as the availability of governmental incentives for FDI (Kalotay 2003). Acquisition of markets is almost exclusively, while production factor costs are predominantly, 'country-dependent' considerations. By contrast, location *within a given country*, i.e. preference for certain regions and settlements, tends to be determined to a larger extent by the accessibility of production factors.

The main factors influencing the location of foreign companies in Hungary have been the following:

- *Geographical location* and the *geopolitical situation of a given region* decisively impact on the location of foreign companies. These have tended to prefer areas close to the Western border and the capital as these areas form part of a roughly 500 km wide zone newly added to the Western European economic space in an Easterly direction. Recent years have shown that greenfield foreign companies preferred to settle in these regions even if they had to face a dwindling supply of production factors, particularly that of skilled labour.
- *Advantages derived from geographical agglomeration* have also been playing a more and more important part. All four of the new car production plants (Audi, Ford, Opel, Suzuki) settled in the North-Western part of the country, three of these in the 60 to 80 km wide agglomeration zone of the capital. The majority of subcontractors operate in the Northern Transdanubia, the Budapest agglomeration and towns in the mountain region of Northeast Hungary.
- A given region can draw further advantages from an expansion of its area, by improving the accessibility of its centres and production locations and by constructing modern *transport* and *logistics routes*. The greatest single source of attraction for FDI at present is the availability of motorways. Case-studies have shown that the stimulating effect of motorways on economic activities is palpable in a zone of about 20 to 25 km attracting both capital and labour and exerting a multiplying effect on a given region's economic development (Bartha

- and Klauber 2000). It is an important finding that large towns of Northern Transdanubia and Budapest, where most foreign companies are located, are all directly accessible on motorways. The missing stretch of the motorway from Budapest to the Austrian border was built very quickly in the early 1990s.
- Foreign companies prefer *younger* and *more qualified employees* than the average workforce and also pay more for their work than Hungarian companies (Fazekas and Köllő 1998; Fazekas 2003). The difference in wage-levels is a function of age, gender and qualifications of employees, on the one hand, and that of higher productivity, on the other. People living in Budapest and Northern Transdanubia tend to have higher qualifications than those living in the rest of the country. This also increases the appeal of these regions.
 - Location factors favouring these regions also include the presence of an active local economy and a characteristic economic structure dominated by manufacturing and special industrial traditions in the machine industry. The economic crisis accompanying the system change affected these regions less severely than the rest of the country. Subsequent economic recovery has taken less time as well.
 - No doubt, the local and regional impact of *incentives* offered by effective economic policies counts among location factors as well. Competition in this regard, however, has been more characteristic among towns which in any case belong to the group of settlements preferred by foreign investors (e.g. Győr, Szombathely, Székesfehérvár, Tatabánya, Esztergom, Komárom, etc.) Municipal policies (for instance, the active participation of Győr's local government in the construction of an industrial park, or the provision of special, locally-available tax-benefits in Székesfehérvár or Tatabánya) can partly explain the location

Table 9.3 Principal factors of the location of foreign companies in Hungary

Factors	in the choice among countries		in the choice among towns and regions in a given country	
	First phase	After 2000	First phase	After 2000
Macroeconomic indicators	+	+		
– costs of production factors	+	+		
Stability and development of business environment	+		+	
– accessibility of production factors			+	+
– development of local economy			+	
– agglomeration				+
Governmental policies	+			
– regional development policies				+?
Local policies			+	+
Geopolitical, geographical situation	+		+	

Source: Developed by author.

choices of foreign companies. Other studies (e.g. in the Budapest agglomeration) have found, however, that different levels of local taxes do not automatically generate disparities. In addition, most tax-free zones were concentrated in areas preferred by foreign investors as well, although this was a company-dependent rather than an area-dependent factor (tax-free zones associated with some companies were abolished after the accession to the European Union).

- In sum, it can be concluded that a favourable combination of several factors and conditions best explains the location of foreign companies. These factors and conditions are subject to change as the preferences and interests of investors may vary (Table 9.3).

The Spatial Structure of FDI

Characteristic structural disparities between Budapest and the countryside are also reflected in the sectoral structure of FDI. The main target of FDI has been the services sector in Budapest as opposed to industry in the countryside. At the same time, it is also to be noted that the capital's industry has always attracted more FDI than domestic investments. Foreign investments have played a major part in slowing down deindustrialisation tendencies, so much so that figures from recent years show not only that deindustrialization has come to an end but even hint at a general strengthening of industry. There have been important changes within the services sector as well: trade has attracted more FDI both in Budapest and the countryside. Logistics, postal services and telecommunications have also been important sectors for FDI in the whole country, although the share of these sectors has been decreasing. The capital's financial and real estate sectors have shown similar tendencies (Table 9.4).

Table 9.4 Investments of companies in foreign ownership by economic sector

Sector	Distribution of investments by companies in foreign ownership according to performance value (%)			
	Budapest		Countryside	
	1998	2002	1998	2002*
Agriculture	0	0	1	1
Industry	27	47	72	77
Construction	3	1	2	0
Services total	70	52	25	22
Trade	9	19	7	10
Hotel and catering industry	2	3	0	1
Logistics, post, telecommunications	24	16	16	9
Financial services	16	9	1	1
Real estate	19	6	1	1
Total	100	100	100	100

Source: County Statistical Yearbooks, Budapest Statistical Yearbook, 1999, 2003, County Statistical Offices, KSH 2002

*without Tolna and Jász-Nagykun-Szolnok counties

Table 9.5 Changes in the spatial distribution of FDI between 1995 and 2002 (%)

Region	1995	1998	2000	2002
<i>Leading counties and Budapest</i>				
Budapest	57.3	60.7	58.0	51.8
Pest county	6.6	7.3	9.4	11.4
Fejér county	2.3	4.4	3.6	2.7
Komárom-Esztergom county	2.1	1.6	2.1	4.1
Győr-Moson-Sopron county	5.7	5.4	7.2	8.4
Vas county	4.5	3.0	3.0	2.9
Borsod-Abaúj-Zemplén county	2.6	2.9	2.9	3.0
Hajdú-Bihar county	3.2	2.4	1.9	2.8
Regions				
Central Hungary	64.0	68.0	67.4	63.2
Central Transdanubia	5.6	7.0	7.0	8.3
Western Transdanubia	12.0	9.1	10.8	11.8
Southern Transdanubia	3.8	2.3	2.0	2.2
Northern Hungary	4.8	4.7	4.6	4.7
Northern Great Plain	4.7	4.0	3.7	5.3
Southern Great Plain	5.0	3.8	3.3	3.0
Total	100.0	100.0	100.0	100.0

Source: FDI in Hungary, 1995-2002. KSH, Budapest 2004.

There is a close correlation between countryside FDI and industrial GDP: the correlation between subscribed FDI capital and the countryside's industrial GDP was $r=0.77$ in 1995. In 2000, the correlation between foreign share in the owner's capital of countryside companies which were in partial or full foreign ownership and gross industrial added value stood at $r=0.80$.

In other words, industrial performance in the countryside has become increasingly dependent on FDI. (For obvious reasons, nationwide figures show a weaker correlation: $r=0.52$. This is mainly to be explained by the fact that most FDI has gone into the tertiary sector in Budapest.)

In the beginning, it was relatively easy to distinguish areas preferred for the purposes of greenfield investments from those areas where FDI was mostly realised by means of privatisation. New sectors – car manufacturing and electronics industry – were located primarily in Northern Transdanubia, whereas privatisation was the chief source of attraction for FDI in Budapest. By contrast, ploughed-back profits now account for about two-thirds of all foreign investments. As a result, investments tend to consolidate already existing spatial structures. FDI is very strongly concentrated in space. Approximately two-thirds of all FDI targets the Budapest agglomeration and another 20% the region of Northern Transdanubia. In short, 80-85% of all FDI is clustered in an area no larger than one-quarter of the country.

Nevertheless, there has been some alteration of territorial structures and a gradual relocation of focal points in recent years (Table 9.5). The share of the Central Hungarian and Southern Great Plain regions has been continuously decreasing and

that of the Central and Western Transdanubian and Northern Great Plain regions increasing. There have been changes within the regions themselves as well. Rapid growth in Pest county is particularly noteworthy when compared to the capital's steadily decreasing influence. In the Central Transdanubian region, Fejér and Komárom-Esztergom counties have exchanged places (the closing down of IBM in Székesfehérvár and the opening of Nokia in Komárom as well as a significant equity increase by Suzuki in Esztergom have greatly contributed to this). Győr-Moson-Sopron county has become stronger in the Western Transdanubian region, while Vas county's position has weakened. At the same time, there can be no doubt that Budapest has always played a major role in the spatial structure of FDI ever since the beginning of the system change. Together with significant investments in Pest county, this has helped to cement the economic dominance of Budapest and its agglomeration.

The Northern Transdanubian and Budapest agglomerations are growing closer and closer together to form an *interconnected cluster*. This cluster has become part of the Western European economic space expanding towards the East (Tagai 2003). Companies located in this increasingly cohesive cluster have been establishing closer economic ties among themselves. Similarity of sectoral structure, dominated by machine industry, generates competition but also enables a better division of labour among companies which use the region's workforce and infrastructure together. As is well known, the labour market of this region shows an increasing lack of qualified workers. This generates competition among companies for employees. In addition to Hungarian SMEs, more and more foreign SMEs settle in this region as subcontractors and suppliers of multinational companies.

As already mentioned, the relationship of the Budapest agglomeration and the Northern Transdanubian region is characterised not only by competition but also by a more and more effective division of labour. Multinational industrial companies located in the Northern Transdanubian region have become clients of Budapest-based services. It is no exaggeration to say that large-scale investments in the capital's tertiary sector (finances, real estate, telecommunications, and business services) are intended primarily to cater for the demands of such multinational companies. This finding supports the general conclusion that a considerable part of the tertiary sector is closely tied up with industrial activities.

New Territorial Trends and Divisions in Industry

Territorial disparities have been growing in the economy ever since the system change. Four aspects of these differences are particularly noteworthy:

- spatial differentiation is mainly to be attributed to inequalities between Budapest and the countryside;
- differing degrees of economic development in Hungary form what is by now a familiar West-East 'slope' (Table 9.6);
- disparities among various micro-regions and between towns and villages are also significant. The resulting picture of Hungary is that of an elaborate patchwork of areas with significant differences in respective levels of economic development;

- finally, along motorways originating from Budapest new axes of growth have begun to take shape (mainly in Western and North-Western directions but also on closer stretches of the North-Eastern and South-Eastern motorways) (Nemes Nagy 2003, 2004).

Industrial development and foreign investments have played a decisive role in the growth of spatial disparities in the economy outside the capital. Industry has been the main motor of economic development in the countryside. Despite the fact that the tertiary sector dominates the economic structure of most regions and counties (the share of the tertiary sector in the GDP and the active workforce exceeds 50%), a strong correlation has been observed between the economic development of countryside regions and the spatial distribution of GDP generated in industry (Kiss 1998). By the same token, an increasingly strong correlation has been recorded between GDP-levels generated by countryside industry and foreign investments. The strong spatial concentration of FDI in manufacturing has been instrumental in bringing about the territorial polarisation of the countryside's economy.

Table 9.6 Regional changes of per capita GDP between 1994 and 2000

Budapest and the countryside*	Budapest (in thousand HUF)		Countryside (in thousand HUF)		Countryside/ Budapest
	1994	2000	1994	2000	
		767	344		0.45
		2615	1036		0.40
West-East (without Budapest)	West of the Danube		East of the Danube		West/East
	1994	2000	1994	2000	
		385	319		0.83
		1251	909		0.73

* countryside: Hungary without Budapest

Source: Hungarian Statistical Yearbooks, KSH, Budapest 1995, 2003.

Table 9.7 Spatial division of industrial production (%)

Region	Corrected index of industrial GDP in 1970	Industrial GDP in 2000
Western Transdanubia	8.1	17.4
Central Transdanubia	15.3	18.2
Central Hungary	38.0	29.4
Southern Transdanubia	7.2	7.1
Northern Hungary	15.9	10.3
Northern Great Plain	7.2	8.6
Southern Great Plain	8.3	8.7
Total	100.0	100.0

Source: Barta 1973, Hungarian Statistical Yearbook, KSH, Budapest 2001

A new regional structure of the industrial sector has replaced the North-South divide characteristic of the socialist economy: Hungary's industrially most developed regions, the capital's agglomeration and the Northern Transdanubian region, is responsible for two-thirds of the industrial GDP. The remaining third is produced by three-quarters of the country. The share of the regions of the Southern Transdanubia and the Northern Great Plain was about equal, and was hardly exceeded by the industrial performance of the Northern Hungarian region which was most seriously affected by the negative economic consequences of the system change (Table 9.7).

Conclusion

FDI has deeply penetrated the Hungarian economy. It has become a decisive microeconomic and macroeconomic player dominating ownership, sectoral, employment and regional structures and is becoming the driving force behind technological development. Consequently, economic successes and failures of recent years are mostly to be traced back to the activities of foreign companies.

Factors influencing the location of FDI have been changing, albeit only very slowly:

- Macroeconomic tendencies exerted a positive influence on the amount of FDI after the transition and until 2000, and a negative influence after that year (rising labour costs in particular have begun to trouble foreign investors).
- In recent years, the dwindling supply of skilled labour has become a factor hindering investments in developed regions of the country, while the construction and even the planning of future motorways has exerted a positive influence (along the motorways leading in Eastern directions from Budapest).
- The positive effects of the agglomeration of high-tech sectors and foreign companies in the Northern part of Transdanubia are already palpable.
- Governmental economic policies played a distinctly positive role until 2000, but have not been successful since then. Although regional development policies continue to prioritise the further attraction of FDI, they have failed to adopt innovative strategies to achieve this objective. The Hungarian government, however, places great expectations on the construction of motorways.
- Positive and negative influences of local economic policies have been of marginal importance.

The region preferred by FDI in Hungary can be circumscribed with considerable precision: 80-85% of FDI is concentrated in the Budapest agglomeration and Northern Transdanubia. Characteristic structural differences have emerged between Budapest and the countryside. The most important area for FDI is the services sector in Budapest and the industrial sector in the countryside. As a result, economic developments in the countryside are mostly to be traced back to the influx of foreign capital.

There has been a minor shift in the sectoral and spatial structure of FDI since 2000. The share of industry and trade has been growing. The dominance of Budapest in the territorial structure has become somewhat less overbearing

(although the capital continues to concentrate more than 50% of all FDI). By contrast, Pest county seems to have become a more and more attractive target for investors.

In the Central Transdanubian region, Fejér and Komárom-Esztergom counties have exchanged places. Győr-Moson-Sopron county has become stronger in the Western Transdanubian region at the expense of Vas county. These changes in the relative positions of counties are mostly due to new investments of multinational companies, or conversely, their decision to abandon a certain production site. The improving record of the Budapest agglomeration with regard to foreign investments (reflected in more positive indicators for Pest county) relative to the capital can be attributed to Budapest's declining economic performance and the lack of proactive economic policies on the part of Budapest's local governments.

The threat of a dual economy overshadowed the 1990s as companies in foreign and domestic ownership hardly interacted with one another. Duality was also a spatial phenomenon: Budapest's agglomeration and a handful of towns in Northern Transdanubia concentrated the overwhelming majority of FDI. The enclave status of foreign companies settled in Hungary, however, had become less oppressive by the turn of the century. This is indicated by improved forms of co-operation between foreign and domestic companies and the spatial movement of FDI.

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Retail Restructuring and Emerging Spatial Patterns of Consumption: New Aspects of Development Disparities in Hungary

Erika Nagy

Introduction

From both an economic and a political point of view, the spectacular improvement of opportunities for private consumption, involving an abundance of goods and the gradual disappearance of structural insufficiencies on the supply side, constituted an essential part of the transition in Central and Eastern European countries. Despite decreasing incomes and complaints concerning the quality of commercial services, purchasing has not only become a popular pastime (Cushman&Wakefield 2002), but according to our surveys conducted at the national level¹ it is also the most important factor in the improvement of the quality of life. The change of demand has had a number of features rooted in the peculiar nature of the transformation process itself and has thus been different from Western European consumption patterns. Differences include strongly price-oriented customer decisions, the high flexibility of demand for everyday consumer goods, slow segmentation of demand, and low-level brand-loyalty. In the emerging Hungarian market, however, these features assumed a rather differentiated spatial pattern in the form of regional and rural/urban consumer models. I will argue that multinational retailers have played a significant role in shaping spatial patterns of consumption. They have become key players in the Hungarian market by introducing organisational and technological innovations, new products and services and by generally reshaping the conditions of purchasing. This process, I want to claim, has been greatly strengthened by the transformation of the regulatory framework of retail activities (the general uncertainty caused by the system change and efforts to promote economic liberalisation) as well as by the shortcomings of national, regional and local governmental economic and retail policies

In what follows, I seek to answer the following questions: What corporate strategies have retailers retail developed in order to adapt to changing economic conditions? How has the implementation of these strategies altered consumption structures and their spatial patterns? Raising the above questions has not only been prompted by fast and spectacular changes in the period of transition but also by theoretical debates going back to the early 1980s concerning a supposedly new (also called post-Fordist) period of the capitalist economy. In the course of these debates, the viability of neo-liberal spatial models has been increasingly questioned (Scott and Storper 1986; Castells 1989; Giddens 1990; Sassen 1991). It has become evident that a re-interpretation of the relationship of the retail sector and space is necessary due to changes in the social role of consumption and to the new integrating role of retail in post-Fordist economies (Hughes 1996; Wrigley and Lowe 1996; Clarke 1998; Sklair 2001; Wrigley 2002).

In my view, *critical political economics* and *regulation theory* offer an adequate theoretical framework for interpreting the role of this sector in the new era. Both schools consider sectoral integration as the answer to the crisis of Fordist mass-production and consumption. Such integration occurred at an international level already in the 1990s marked by the growing share of retail organisations. Representatives of the *former* school have at the same time re-interpreted correlations between *global processes* (acceleration of capital circulation at the first place) and transforming *organisational structures of companies* and have also thrown light on the connections between the increasing differentiation and change of *consumption patterns*, the emergence of *new market sectors* and the growing significance of organisational, product and market innovations. Therefore, retail retail as a key link in the chain of flexible capital accumulation became an important research interest owing to its special, intermediary role between consumer demands and production processes (Wrigley and Lowe 1996; Weijers and Janssen 1997). Representatives of this school took the study of *spatial aspects of corporate decisions as their point of departure*. They interpreted decisions concerning locations as part of the company's operative strategy. This is also expressed in the choice of *space in a broader sense* (macro-economic environment, infrastructure, regional demand) and *location* for purposes of investment, reconstruction and disinvestment (Wrigley and Lowe 1996). In what follows, transformation processes in the Hungarian market will be examined from the perspective of *political economic theory* focusing on the conversion of corporate organisations, resulting spatial changes, the restructuring of supplier and subcontracting systems as well as on corresponding changes in the regulatory environment of retailing. At the same time, using the theory advanced by the *regulation school* based on the cyclic character of social-economical development (Sykora 1994; Nagy, E. 2005) and its historical embeddedness (i.e. specific features of local, regional and national development)², I will also attempt to lay bare the structural and spatial characteristics of the transformational process.

I am going to review structural and spatial characteristics of the socialist retail sector up to 1989. These are the features that significantly shaped retail shop networks as well as the formation of consumer habits after the system change, or at least so I would like to argue (chapter 2). In chapter 3, I am going to deal with the

most important stages of the changes in the regulatory framework of retail activities paying special attention to both changes in conditions for launching and operating domestic companies and incentives for FDI. I will then analyse re-structuring processes in the retail sector occurring in the past fifteen years with special emphasis on their spatial aspects (chapter 4). This analysis will focus on the retail retailof consumer goods. One reason for this is the appearance of a significant number of national and foreign players in this sector and the resulting spectacularly fast re-structuring and concentration of the market. The choice of this sector is also motivated by its key role in shaping spatial patterns of consumption and retail. Finally, in the closing chapter (5), I am going to provide a review of consumption patterns and regional differences that can be traced back to ‘inherited’ features and the structural change of the retail sector.

The conclusions presented below are based on a number of research programmes including several completed between 1994 and 2004 as well as one currently underway. These programmes have analysed not only statistical data, but also studied information available from the media and firm (unclear: should it be ‘firm’ or ‘from’) demography. Furthermore, a series of interviews were conducted with a number of executives of large foreign retail organisations and representatives of small, medium, and large Hungarian enterprises and sectoral interest groups during the above-mentioned period. The chief purpose of these interviews was to understand the process of organisational transformation in the Hungarian retail sector and to reveal effects of national and local policies. A shopping survey was carried out in 1994 and 2004 (in Debrecen and Békéscsaba) in order to outline the transformation of consumer habits and the spatial characteristics of this process. The application of complementary methods has helped to eliminate inconsistencies and gaps in the statistical background and made it possible to study retail restructuring both with regard to the demand and supply sides.

Retail and Consumption in the State-planned Economy

The monopolistic organisational framework and hierarchical spatial structure of the pre-transition Hungarian retail sector began to emerge at the end of the 1940s. Top-down organisational concentration took place in the course of which the number of retailers dropped drastically. These were replaced by networks of state-owned or co-operative shops. State-owned wholesale companies with national or regional monopolies were put in charge of supplying these networks. This organisational transformation led to an increasing spatial concentration of purchasing choice. Wholesale and distribution functions were divided in a hierarchical fashion within the urban network. The same phenomenon could be observed in the case of retail networks (Beluszky 1966; Kovács 1987).

The 1960s saw disruptions of supply as the population started to migrate toward urban areas. In response, networks of shops offering consumer products were expanded, while national wholesale companies built rural networks, mainly concentrating on county seats, in order to improve supply. The number of shops as well as retail floorspace continued to grow in the 1970s. However, at the same time

a process of concentration also set in as a result of the opening of large new supermarkets and shops specialising in manufactured goods (average floorspace grew as did the share of large towns from the total retail floorspace). Until the 1980s, the gradual *strengthening of the private sector* brought only *minor alterations* but *did not significantly change these patterns*. The development of the private retail sector played a substantial role in the accumulation of financial, technological and social capital. Hungarian entrepreneurs have relied on these various forms of capital during the privatisation process as well as in the course of their subsequent business activities (Belyó 1995; Douglas 1995; Nemes Nagy and Ruttkay 1987)

However, the role of private retailers was still considerable in shaping supply in the years before the system change since they were capable of filling *market niches* through their special *range of items* and *location*. Even though their *spatial distribution* followed the already existing settlement *hierarchy*, their very appearance in smaller settlements represented an improvement. New elements (department stores, specialist shops) added to ‘socialist’ commerce and the centralisation of non-food private shops in towns automatically led to increasing spatial and social differentiation of consumer preferences and habits. It is difficult, however, to track this process using data aggregated at a regional level. At the end of the 1980s, only Budapest’s indicators for (per capita) expenditure on culture, recreation, health and body care, clothing and transportation diverged significantly from the average. Some regional characteristics had already emerged, however, representing differences in income and cultural peculiarities that ‘survived’ the changes of the past fifteen years. Both the ‘socialist retail sector’ and the development of a so-called ‘grey economy’ played a significant role in the formation of these characteristics (Table 10.1).

Table 10.1 Changes in household expenditure in regions of Hungary representing different consumption models

Product class	1997			2002		
	Central Hungary	Western Trans-Danubia	Northern Great Plain	Central Hungary	Western Trans-Danubia	Northern Great Plain
Food	100.5	101.2	98.6	103.6	95.2	99.5
Consumer goods	109.4	97.2	93.7	114.5	91.6	94.7
Clothing	103.1	103.8	110.6	106.2	98.3	101.5
Household items and furniture	109.8	100.0	81.6	103.1	94.3	108.7
Health, bodycare	124.7	87.2	83.4	115.2	94.0	95.5
Transportation, telecommunication	129.6	93.2	67.2	117.0	94.9	88.1
Total	108.4	85.0	87.3	113.3	94.2	92.5

*Per capita; national average=100,0

Source: Regional Statistical Yearbook, KSH, 1996, 2002.

Macroeconomic and Regulatory Framework of Retail Restructuring

In the first years of transformation, steps were taken to abolish state monopolies and to create a legal framework of free enterprise. As a result, the key actors in this sector were re-organised and transformed state companies, regional retailers and, lastly, integrational organisations (e.g. supply associations) which, however, were still at a rudimentary stage at that time. This period, up to the middle of the 1990s, can be characterised by the dominance of regulative chaos, (or more precisely, the widespread lack of regulation) as well as by unfavourable macroeconomic processes resulting in a decrease of the real value of demand from year to year.

The process of liberalisation resulted in an eventual increase in the number of small shops and the fragmentation of organisational frameworks by the first half of the 1990s. This process enabled rapid spatial and organisational concentration in a narrowing and scarcely segmented market. The most significant actors in this latter process, which gathered momentum in the second half of the 1990s, were international retailer networks retail. Their expansion gave an impulse to the growth of retail investments and employment. In addition, by leading to an increase in the average floorspace of shops and by introducing new forms of retail and services, it accelerated the growing fluctuation of domestic actors as well as the process of organisational and spatial concentration in the retail sector.

The Act on Individual Enterprises and Corporations passed in 1989 encouraged the launching of new businesses by domestic actors. However, the same Act also removed legislative obstacles to the participation of foreign investors. The licensing procedure was rather liberal.³ Loans granted by the state were also available for newly-founded enterprises. At the same time, high interest rates and deficiencies of banking services were responsible for the high risk of initiating capital-intensive activities as a consequence of which such investments enjoyed little popularity. By contrast, the services sector in general and retailing in particular attracted most of the entrepreneurial rush of the early 1990s.

This tendency was curbed by the introduction of stricter controls over economic organisations in general and specifically over retailing activities from 1995. Room for tax avoidance by small-scale retail enterprises was shrinking. Meanwhile, social security contribution rates were also increased (all part of the so-called 'Bokros-package', a set of austerity measures aimed at fiscal consolidation in 1995). Retailers were subjected to tax and hygiene controls in particularly high numbers. At the same time, regulations concerning the required level of education for employees of retail enterprises became increasingly demanding as well (1996). In sum, the adoption of a consistent system of regulations can be said to have played a significant role in calming the rush on the retail sector by 1996.

Although private enterprise was encouraged in order to facilitate economic restructuring as well as on political and ideological grounds, *support for domestic small and medium-sized enterprises* (SMEs) in the early 1990s was inconsistent and insufficient. Interest rates of bank loans were too high (exceeding 10%) and the amounts often too small to cover costly investments such as the (re-)construction of retail chains, the introduction of IT in retailing or the setting up of a logistic base.

Furthermore, retailing was not favoured by support schemes for SMEs as economic policies focused on manufacturing until 2000. The acute shortage of capital in the retail sector could not be relieved by bank loans due to already mentioned factors such as high interest rates. The general reluctance of banks to assume high risks and accumulate 'bad loans' prior to the re-organisation (stabilisation) and privatisation of the bank system, which finally took place in 1995-96, made the situation even worse. A new policy for supporting domestic SMEs was introduced as late as 2000. This policy provided funding for specific development projects.⁴ Although enterprises involved in retail activities were included in this new support scheme, the availability of funds was rather limited (e.g. for IT-related developments). As a result, the introduction of this support scheme had no significant impact on the highly centralised retail market structure dominated by major international corporations that had emerged by the early 2000s. Similarly to other transitional economies, the failure of the SME support scheme was rooted in liberal economic policy and rapid centralisation driven by international actors (Coles 1997; Drtina 1998).

The process of market fragmentation was also advanced by the transformation of major state-owned enterprises in the early 1990s. Managements of retail firms played a decisive role in company re-organisation and in the first stage of privatisation (as shareholders). Their transition strategies opted either for centralisation (e.g. creating a uniform corporate profile through the introduction of regulations for the entire network) or decentralisation (transforming regional branches into independent firms) as well as product specialisation and the improvement and extension of the range of retail services. However, every company where interviews were conducted in 1994 reported that they were interested at the time in attaining stricter control of the distribution process by combining retail and wholesale activities. Reorganisation involved investments on a significant scale to be realised at the expense of the reduction of retail networks by selling or renting existing premises. Consequently, the transformation of privatised companies contributed to the organisational and spatial fragmentation of retailing.

The so-called *pre-privatisation process* also helped to create a fragmented market structure dominated by independent retailers until the mid-1990s. Individual stores from the network of former state companies (comprising altogether more than 5000 relatively small outlets) were sold one by one at public auctions. The exclusion of state corporations from the pre-privatisation of local and regional retail chains also limited the scope of domestic actors for extending their branch networks.

The liberal attitude of successive national and local governments towards international investment promoted the growing internationalisation of the Hungarian retail market which resulted in a change of direction in the restructuring of retail activities in the late 1990s. As early as in 1989, the Act on Foreign Investments was introduced with the aim of providing a safe legal environment for foreign enterprise and a status equal to that of domestic organisations. Foreign direct investments were also encouraged through favourable taxation which initially included only the corporation (usually called corporate here) tax (18%) levied by the central governmental budget. From 1989, large-scale investments were also fostered through the granting

of immunities from corporate and local taxation (for a five-year period for both taxation types) with no sectoral restrictions (Nagy, G. 1995). By encouraging the influx of 'global' capital in these ways, national investment policies sought to promote the structural transformation of the economy, similarly to other East Central European countries (Lupton 2002).

Global economic actors were welcome also at a *local* level. This is because local decision-makers struggling with a permanent liquidity crisis⁵ and structural deficiencies of the local economy were seeking additional financial resources by selling large plots in urban areas to investors and real estate developers of declining parts of their towns. Economic crisis and the propensity of successive national governments to centralise resources made localities increasingly dependent on the decisions of major investors in the 1990s. The result was a distinct local preference for major investors ahead of local SMEs. The turn towards a liberal urban policy focused on improving economic performance of cities and towns was stimulated by the globalisation as well as by the transition process (Guy 1998; Heinritz *et al* 2003).

Shortcomings of regulations concerning retail activities can in general be described as by-products of the transition process. The Act on Retailing was passed in 1978 and amended several times in the 1980s and the 1990s. Although currently more than 50 different pieces of legislation must be taken into account by retailers, many important issues, such as payment deadlines, prices (selling below the suppliers' charges), opening hours, employee-rights and many environmental aspects of retailing have not yet been brought under control. The Hungarian retail regulation system was labelled as 'very liberal' even by the executives of international corporations (2002–2003).

Deficiencies of the legislative framework of retailing as well as the rapid shift to a highly liberalised and contested market were exploited primarily by large-scale retail corporations (mainly in foreign ownership) in the management of supplier networks, price policies and services provision (e.g. opening hours). Inconsistencies and inadequacies of regulations were repeatedly pointed out by domestic retailers who also attempted to persuade decision-makers to establish a coherent legislative framework of retailing. Nevertheless, a new act on retailing is yet to be put forward. This situation is regarded by domestic retailers not only as the failure of national retail policies but also as that of retailer interest groups. The latter still find themselves in a state of disarray (with two major and several smaller organisations)⁶ and are strongly influenced by retailers in foreign ownership.

Restructuring in the Retail Sector

One of the important and still insufficiently understood processes in the structural transformation of Hungarian economy and society was the changing role and significance of retailing. Precisely those actors of the retail sector that had formerly been classified as 'non-productive' and had been restricted to a mediating role in the state-planned economy started *to assume control over production, distribution and sales* in the 1990s. A process of vertical integration took place in accordance with international trends, but not solely with the participation and direction of foreign

investors. Innovative domestic companies and organisations with a solid financial background also took an essential part in this process. At the same time, the development of the retail sector impacted on *social differences as well*. First, this sector was a major source of capital accumulation. Second, retail companies (or at least some of them) created new dimensions of inequality in the period of transition by shaping the conditions of consumption (e.g. accessibility) and by influencing market segmentation.

Structural Fragmentation and the Mushrooming of Shops in the Early Period of Transition

Three main factors are responsible for most of the changes occurring in the first period of the transformation of the retail sector (up to 1996): (i) the process of privatisation as outlined above, (ii) the proliferation, development and fluctuation of domestic enterprises, and (iii) foreign investments. Newly-established domestic SMEs played a decisive role in this period. The number of joint enterprises grew by 250% (although it has to be said that this spectacular change was chiefly due to the mushrooming of enterprises with an initial capital of no more than a few hundred USD), while the number of individual enterprises increased tenfold (the significance of such enterprises was particularly great in food, clothing and other small-scale retail sectors). Our interviews demonstrate that the ‘entrepreneurial rush’ of the early 1990s should not be regarded as an integral continuation of entrepreneurial activities familiar from the 1980s. Only a small number of entrepreneurs of the socialist ‘second economy’ could take root in the period of unregulated (‘liberalised’) retail. The appearance of enterprises in large numbers and the strengthening of some SMEs are phenomena specific to the 1990s. Although this wave of entrepreneurial enthusiasm had gone back considerably by 1996, the share of this sector remained outstandingly high among economical organisations (32%) in spite of its comparably small contribution to the GDP (10%). In the middle of the 1990s, the majority of domestic enterprises had a weak capital base, a great number of them (approximately two-thirds) had no employees and about 90% of them did not join any kind of larger organisation. The fact that the retail sector had a low, 4-8% share of investments between 1991 and 1996 proves that domestic enterprises were insufficiently capitalised at the time. The breaking up of previously existing organisational frameworks was also reflected by the transformation of store chains. The number of small retail stores had increased fivefold by 1996, while floorspace in the majority of newly-opened shops remained below 20m² (Douglas 1995).

Organisational and structural contradictions in the so-called early stage of system change were reflected in the functioning and development of retail organisations. The strong *fluctuation* of actors in this sector was an important factor as well. This fluctuation owed mainly to the decreasing purchasing power of demand, the increasing number of enterprises and intensifying competition due to the appearance of foreign investors. The number of independent retailers and shops remained high with correspondingly large market shares until the middle of the 1990s (Mohácsi 1998) despite the fact that organisational and capital concentration⁷ could already be observed in what was to become an increasingly narrow market. Even though there

were initiatives to promote integration as early as the beginning of the 1990s (first, to form supply alliances and, second, to create a unified profile and supply network for retail chains operated by cooperatives), only a small proportion of entrepreneurs were involved at that time. This *individualism* was rooted in the lack of business ethics and trust. It was also sustained, however, by politically and ideologically motivated efforts to strengthen national capital and support free enterprise. At the same time, the continued existence of enterprises which often ran only a single shop is also explained by the essential role they played in survival strategies of households especially in Eastern counties of Hungary. In these regions, which were hit particularly strongly by economic depression and have as a result fallen behind, ownership and organisational structures are still relatively fragmented.

For a significant number of enterprises, the initial deficiencies of regulation (and control) were in fact indispensable to survival since these left a considerable loophole for activities in the 'grey' and 'black' economies. The view that associated dishonest behaviour or even money laundering with commerce and retail (especially in Southern parts of Hungary in the neighbourhood of Balkan states) was fairly widespread in the middle of the 1990s. Business people themselves frequently took a critical stance towards their own profession. The attitude of distrust toward the sector was only exacerbated by frequent complaints concerning quality and fast fluctuation of shops. This process resulted in the swift (trans-)formation of retail alliances which in turn prompted consumers to react and adapt quickly to the changes as well.

Until the middle of the 1990s, foreign investors explored markets mainly by taking part in the privatisation process (e.g. Meindl-Group, Tesco, Delhaize Group), whereas greenfield investments remained sporadic.⁸ Investors favoured the capital and the Western region of the country. Partly as a result of this, privatisation was faster here with a smaller number of former state-owned retail companies facing a serious crisis than in Eastern regions. The appearance of foreign investors had a beneficial effect (by accelerating the process of integration and concentration) on the transformation of the organisational framework and the quality of services as well. This East-West division was also reflected in the opinions of local retailers in the middle of the 1990s.

It can be concluded, therefore, that the 'entrepreneurial rush' and the opening of new shops typical of the early stage of transformation could set off spatial inequalities to some extent. On the one hand, material goods became more accessible (thus consumer goods in smaller settlements and peripheral urban areas), while, and on the other, the dismantling of the former hierarchical structure of distribution (through privatisation and re-organisation) led to the decreasing importance of large provincial centres in spatial organisation. However, as new actors appeared (FDI, innovative domestic retail companies) and introduced novel purchasing techniques and higher quality services, spatial inequalities also began to grow. This process reflected spatial disparities in incomes (purchasing power) of the population. Furthermore, it also resulted in the segmentation of consumer markets in the capital, Western Hungary and in large towns (with populations above 100 000) in the middle of the 1990s.

Centralisation and Spatial Polarisation: Spread of New Forms and Techniques of Retailing

Important processes occurring in the second half of the structural and organisational transformation of the retail sector until 2000-1 included the expansion of foreign retail networks, a significant growth in employment and investments, acceleration of capital-accumulation, the spreading of organisational and technological innovations and the territorial centralisation of 'retail spaces'. *FDI* in Hungary was stimulated by increasing competition in home markets accompanied by a wave of corporate mergers in Western Europe during the second half of the 1990s (Hernandez and Bennison 1998; Poole *et al* 2002). Meanwhile, the investment-friendly environment of the time also acted as an incentive. This environment comprised liberal economical policies of successive Hungarian governments, the relatively fast creation of a comprehensive legislative framework, the privatisation process itself as well as the prospects of economic growth (and rising household incomes) and imminent accession to the European Union. Further, the underdeveloped retail network, the breaking up of retail chains of state-owned companies and in general the low standards of retail services⁹ also created investment niches. Even though foreign investors appeared in the Hungarian market at the beginning of the 1990s, a significant change in their strategies could only be registered in the mid 1990s. This turnaround was reflected in a significant growth of investments, an increase of large-scale greenfield retail developments and also in the fact that foreign networks began to spread faster in rural areas (partly by new developments and partly by buying up local networks).

The growing influence of *real estate agencies and developments* created a radically new situation. These enterprises take their decisions according to the expected rate of return of real estate investments. Consequently, their appearance accelerated constructions serving partly or exclusively commercial purposes and also increased real estate prices. This group of investors played an especially important role in building *shopping centres*. Their design (i.e. their interior and the composition of future occupants) had a *direct* effect on the spatial strategies of retail organisations and consumers through the infrastructure, agglomerational advantages and special services to be offered in such shopping centres (Nagy, E. 1999).

Food-store chains also played an important role in the structural transformation of the retail sector. Since the consumption of customer goods in Hungary is characterised by large elasticity in comparison to Western European standards, the increase in household incomes since 1997 encouraged investments in this category. The other, equally important motivating factor of expansion has been the increasing competition typical of this sector even in the case of national markets. The relevant group of investors impacted crucially on greenfield investments in a number of ways. By building discount stores and hypermarkets and by functioning as 'anchors' of shopping centres, they contributed to the expansion of new forms of retail. They have contributed importantly to technological innovation (e.g. by creating IT-based logistical service backgrounds) and imported organisational novelties as well. These included, first and foremost, the creation and running of a centralised and strictly controlled (through a system of internal quality control), multi-layered, flexible

network of suppliers. This represented an entirely new model in comparison to the fragmented organisational network of the domestic retail sector.

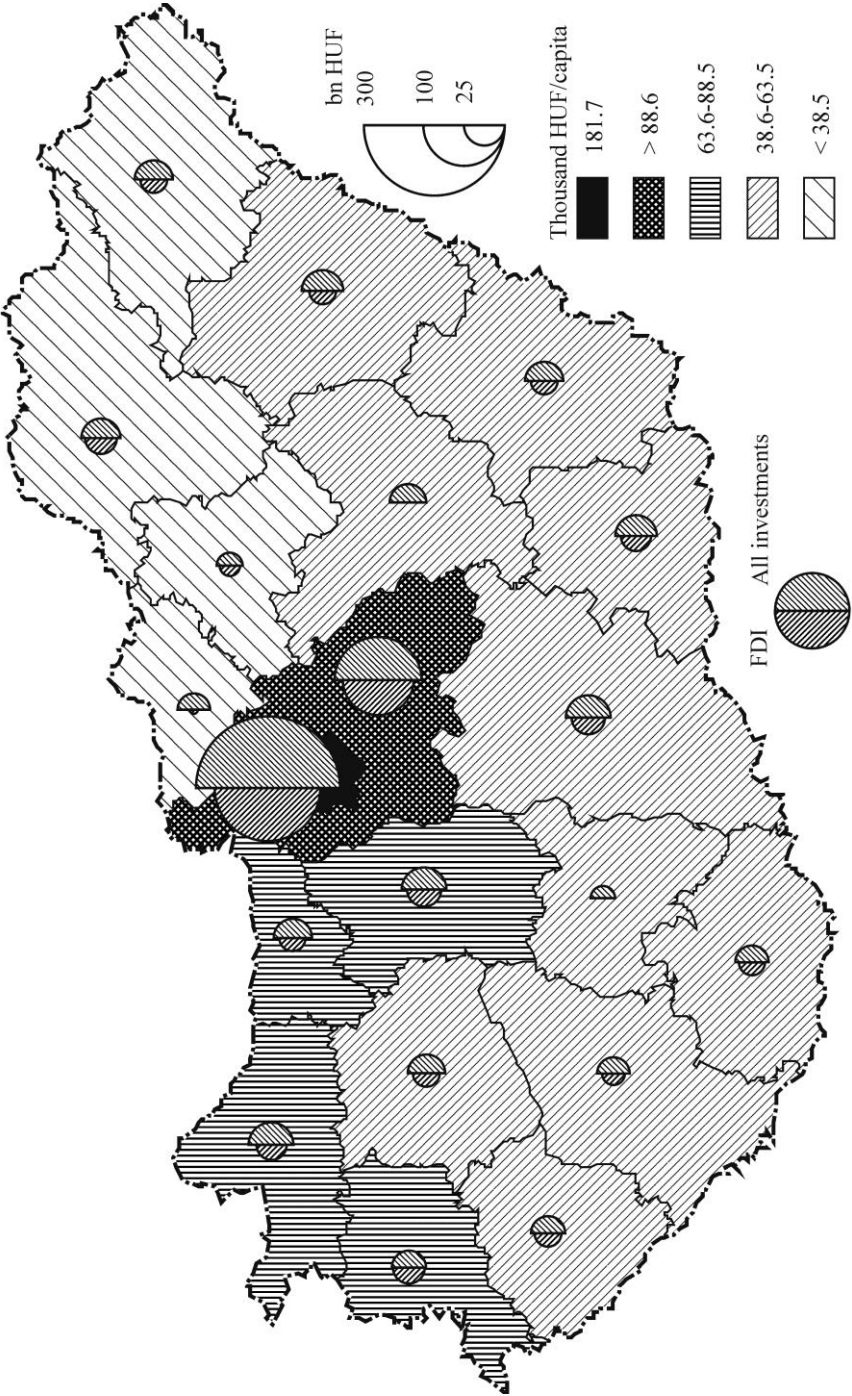
The expansion of multinational organisations accelerated from 1997. This was also reflected in a sudden increase of investments.¹⁰ Tesco, Metro, Delhaize, Auchan, Rewe, Spar and the Tengelmann groups claimed the largest shares of the Hungarian market. In 2002, three Hungarian organisations (supply alliances) made it into the 10 largest players in the food-retail sector (on the basis of turnover). The above-listed large enterprises entered the market with different strategies. They have all sought, however, to adjust to changing markets influenced by volatile customer habits, strong price-orientation, and limited demand. Meanwhile, they have also tried, of course, to exploit the special opportunities present in these markets (e.g. available manufacturing capacities to produce own brand articles and strong competition among Eastern and Central European producers to become suppliers of large networks, etc.)

The *hypermarket* proved to be the most successful new retail form among all the novelties introduced by international actors (Tesco, Delhaize, Auchan, and Spar). These became the most important places for large weekly shoppings (between 1997 and 2003, their shares reached 20% in the market of consumer goods)¹¹, but their importance in the retail of durable goods also increased.¹² The main target for such developments was the capital and its region. It took longer for hypermarkets to appear in the countryside, and then also mostly in the centres of larger towns. The spatial expansion of investments was basically hierarchical (that is, proceeding according to town-size), but regional preferences could be observed as well. These preferences explain why hypermarkets appeared somewhat later in Eastern Hungary and are also reflected in the spatial strategies of some investors such as Spar and Auchan (Figures 10.1 and 10.2).

A well-structured retail network comprising all known types of shops had evolved by the 2000s. Companies targeting the *category of supermarkets* have been facing strong competition in terms of prices (discount stores), accessibility (traditional corner shops and peripheral developments with large floorspace) and choice (hypermarkets). As a result, the *group of foreign investors* and their relevant strategies have been constantly changing and transforming. Due to strong competition, business strategies of companies have begun to focus more and more on space-related issues. Accessibility, store environments and the group of potential customers (quality-conscious middle-class consumers) have come to be regarded as crucial factors. Therefore, developments (re-constructions) occurred, on the one hand, in higher-income areas (Budapest, Western Hungary), and in large and medium-sized towns, on the other. In the latter case, important retail centres (mainly incity centres) have been targeted.

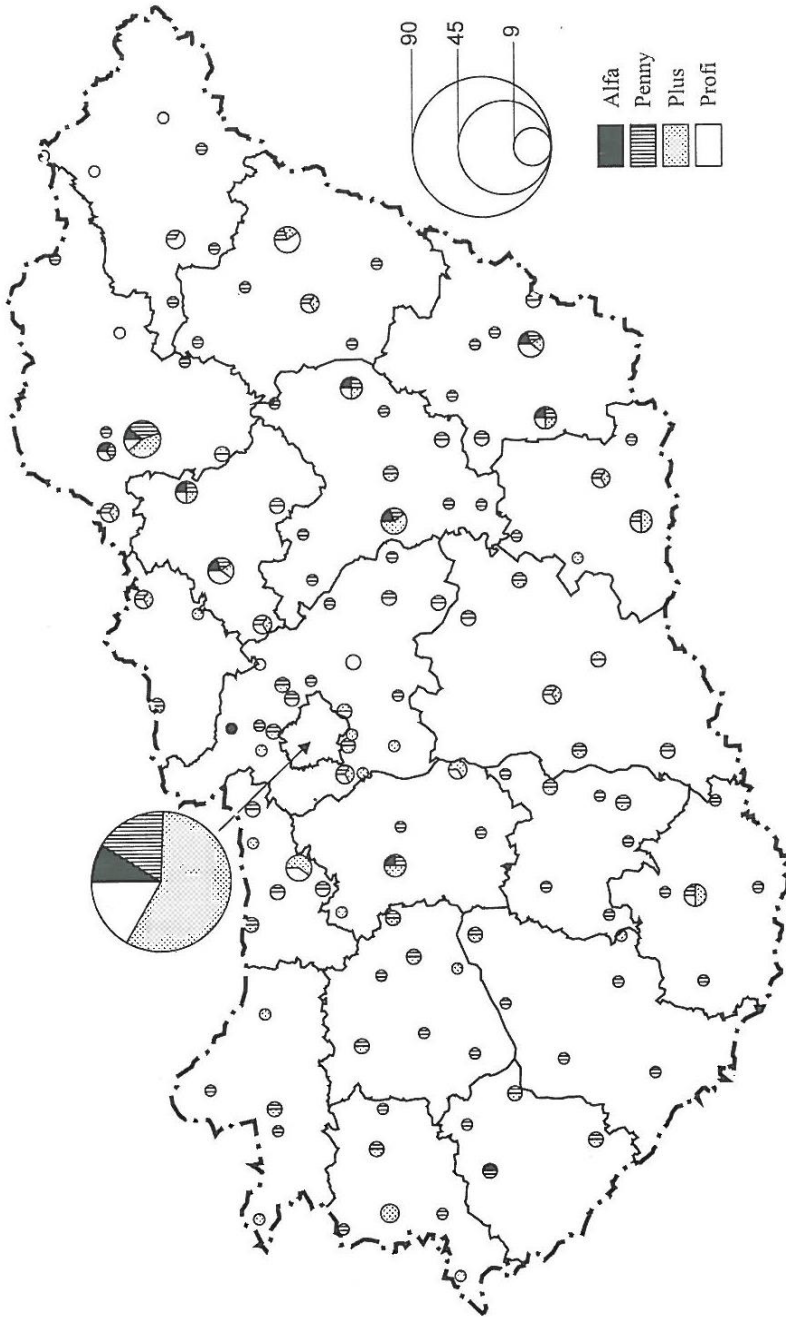
Discount stores represent another equally important group of developments. Their rapid multiplication is also the result of the activities of foreign actors. Unlike supermarkets, they were (also) created for customer groups with lower incomes showing strong price-sensitivity. Given their moderate prices, they were attractive

Figure 10.1 Retail investments in Hungary, 1996-2002



Source: National Statistical Yearbooks of Hungary (1996-2002)

Figure 10.2 Discount store networks in Hungary run by international corporations, 2002



Source: The author's own compilation

for the population of underdeveloped, rural areas where customers are conservative and more inclined to compromise on the quality of products and services (Figure 10.1).

Owing to special characteristics of demand in Hungary (price-sensitivity, the lack of segmentation), *price competition* and large-scale developments have become more and more pronounced in the strategies of foreign investors. At the same time, as already remarked, the importance of space increased in the decisions of companies (concerning investments). These decisions have increasingly reflected regional disparities of income and consumer attitudes as well as differences between towns and rural areas (Figure 10.1). These strategies thus created new aspects of regional inequality. These can also be observed both in the increasing spatial concentration of retail services and the structural transformation of consumption.

The expansion of foreign investors accelerated the process of capital and organisational accumulation. This in turn impacted both on foreign investors themselves (witness Julius Meinl's withdrawal from the Hungarian market and changes in the supermarket sector since 2000) as well as domestic retail enterprises. The increase in the number of shops beginning in 1989 came to a halt in 2003. What is more, even the number of shops trading everyday consumer goods has begun to decrease, mainly as a result of the liquidation of private enterprises and small companies. This *new period*, which could also be referred to as the third phase of development, displayed another important feature of transformation, namely *organisational integration*. This involved the creation and enlargement of domestic networks and the formation of supply alliances by multinational players. As regards food-retail, the share of stores ran by 'independent' entrepreneurs decreased in the domestic market, while small and medium-sized shops belonging to supply alliances (CBA, Coop, Honicer, Reál) could increase their shares in the past three years.¹³ In addition to the adoption of a joint policy concerning suppliers, they owe their successes to taking over profitable elements in the strategies of multinational companies¹⁴. However, accessible smaller groceries – still playing a significant role in the supply of consumer goods – continue to claim a considerable share since they are located most closely to the population's daily routes.

The networks of these associations – especially those of the two largest, i.e. CBA and Coop – cover the entire country. Coop's spatial strategy focuses on supplying rural areas and peripheral urban spaces. These areas are price-centred, conservative and compromise-prone in terms of choice. By contrast, CBA is a voluntary association and its chains of shops can be found in great numbers all over Hungary. Due to their heterogeneity, however, these associations are permanently fraught with conflict. One source of disagreement is the difference in spatial patterns of consumption. This is because different attitudes – i.e. rural vs. urban and regional (Eastern vs. Western Hungary) – are reflected in price and product preferences. These in turn produce differentiated consumer demands which have to be accommodated within the framework of a unified distribution system. Domestic networks are not developed (or flexible) enough for dealing with differences of this kind, not to mention differentiation processes among consumer groups among and within settlements

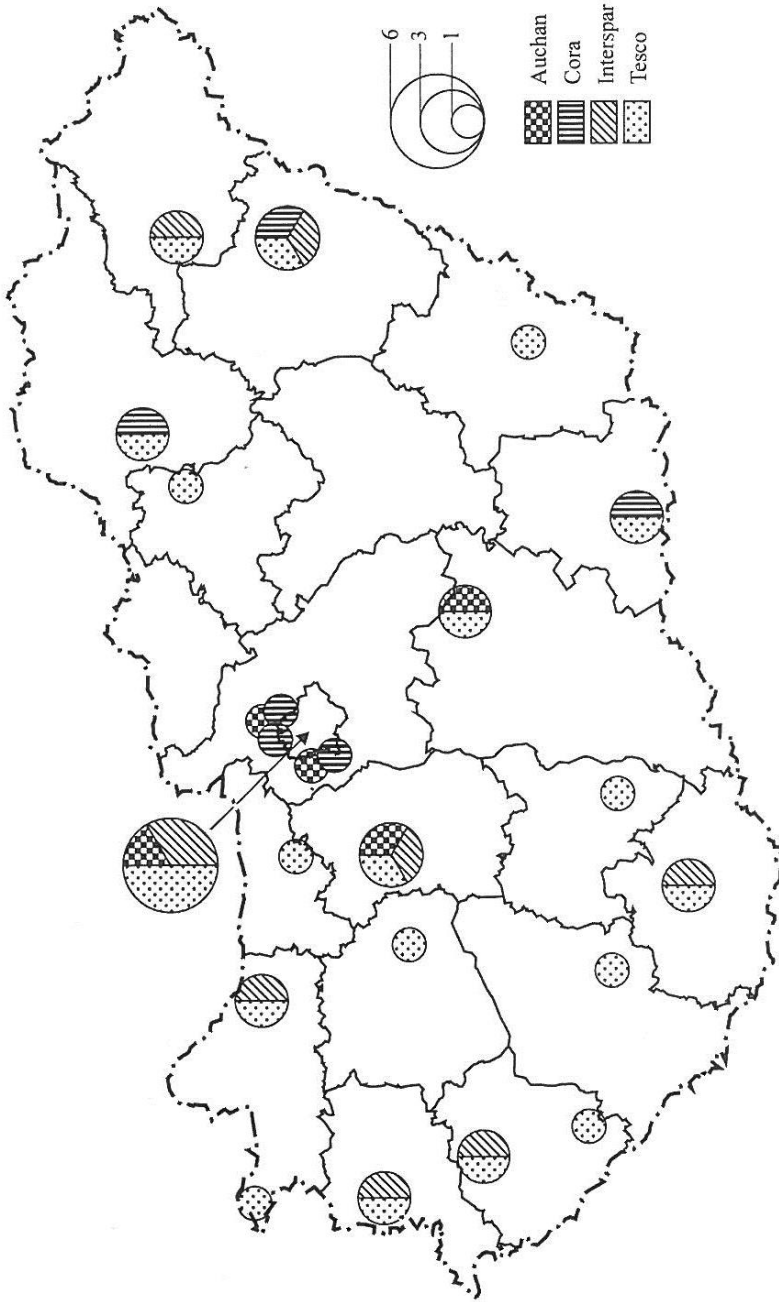
The appearance of foreign actors and their subsequent developments stimulated changes in market positions and, consequently, the acceleration of organisational concentration. They have also contributed to improved levels of technical and technological services including those provided by domestic players. Experts agree in the positive assessment of this development which in the past four or five years has also spread to Eastern counties of Hungary. At the same time, the prospects of small enterprises lacking capital and opportunities for integration into larger frameworks are rather poor. The majority of them are incapable of introducing even the new quality control system (HACCP) compulsory after Hungary's accession to the EU. As a result, local commercial services have become more restricted or entirely unavailable. This affects primarily rural and peripheral regions and less mobile (elderly or poor) social groups. In short, the above tendencies have further intensified already existing spatial disparities in consumer structures (Figure 10.3).

Socio-spatial Differentiation of Consumption

Increasing incomes, decreasing unemployment rates and the widening range of consumer loans offered (especially from 2000 on) resulted in the *increase of domestic consumption* from 1997. This process continued up until 2002 (disregarding a temporary setback in 2000). This trend, involving markets for both consumer durables and non-durable products, was favourable for the retail sector. Even though differences in incomes remained unchanged until the end of the decade, a decrease in spatial disparities could be observed in terms of consumption. This process had varying effects on different regions of the country. In Eastern and Northeastern regions of Hungary, where incomes are comparably lower, 'delayed' demand for durable goods (household and home entertainment appliances, furniture, etc.) defined the structure of consumption. Meanwhile, in the capital, its surroundings and Western regions of the country, demand grew largely for transportation, telecommunication and services geared towards the improvement of living standards (health, recreation and culture). Thus, available data suggests that in Hungary around 2000 there existed simultaneously a 'Western' model comparable to that dominating consumerist societies of developed economies, on the one hand, and an 'Eastern' model more characteristic of an 'accumulation' phase with an emphasis on material goods, on the other (Table 10.1).

Our empirical inquiries show that structural changes have taken place in parallel with the growth of consumption in the Hungarian market. Consumer markets have become polarised in terms of location (urban vs. rural), space (regions), income and *age*. Markets themselves have also begun to adapt to these tendencies. Urban consumers are more innovative and receptive but are, at the same time, easier to manipulate. The *rural population* is by and large more conservative, but is more willing to compromise (for example, it is more ready to rest content with a more restricted choice of goods to save money and time). From the point of view of entrepreneurs, *regional characteristics* boil down to the more price-centred orientation of the population in Eastern Hungary.

Figure 10.3 Hypermarkets in Hungary run by international corporations, 2002



Source: The author's own compilation

The appearance and spread of new retail forms contributed to social differentiation. Our research indicates that shopping centres and hypermarkets segmented society to the largest extent. The clientele of the former differs in terms of age and income, and (secondly) also in terms of qualifications. Young people and upper middle-class consumers are ready to accept and visit ‘malls’, while the elderly, those with lower incomes and the less qualified tend to refuse them. As a result, the spread of this form in large and medium-sized towns has had a number of specific effects. First, it has altered the structure of the local retail sector. City centre retail has become polarised in terms of price and quality. Simultaneously, a re-organisation of shopping spaces could be observed. Second, the introduction of new forms of retail has also led to the transformation of shopping habits and even the formation of consumer models and the segmentation of markets (Nagy, E. 1999; GFK Hungária 2000).

Hypermarkets ‘divide’ consumers according to mobility (income), age and marital status. Especially income tends sharply to mark off the different habits of various groups in the rural population. Car owners developed new shopping habits and spatial patterns of consumption. At the same time, regional differences were also shaped by the popularity of hypermarkets. Large investors interviewed reported that developments in Eastern Hungary were among their most successful undertakings. This can be attributed to a number of reasons. Retail networks adapt to regional characteristics of consumer structures (tested on a quarterly basis) and especially to the needs of customers from the countryside (which needs are in turn crucially shaped by expanding multinational companies).¹⁵ According to domestic entrepreneurs, however, many members of the Hungarian population, especially those living in Eastern Hungary, tend to make irrational consumer decisions (‘over-consuming’) allowing themselves to be persuaded by promotions and the availability of massive supplies. The fact that shopping is also a pastime activity – not only in shopping centres but also in hypermarkets – plays an important part in the formation of such attitudes, particularly so in the Eastern part of the country.

In sum, the most important impulse for the spatial and temporal re-organisation of shopping habits was constituted by large and financially powerful (mainly foreign) organisations. By the beginning of the 2000s, these had completely transformed the domestic commercial network through large-scale developments. This transformation has affected mainly mobile groups in middle or higher income brackets that have better access to information on new opportunities and are also better positioned to exploit these (similarly to ‘Western’ societies). Within this group, the structure of consumption has changed radically leading to the transformation of spatial and temporal aspects of consumption. The introduction of new elements (products) in households depends mainly on age and qualification, but is also closely linked to the place of purchase (this is most frequently a newly-opened supermarket or hypermarket). In the case of the above-mentioned social groups, these tendencies point to the spread of more health-conscious diets and general changes in characteristic ways of life (e.g. eating as a cultural experience, decreasing amount of time for cooking, etc.). The transformation of the domestic retail sector least affected groups of retired citizens and those with lower incomes.

These groups cannot benefit from lower prices – not even in towns targeted by large-scale developments. Their structure of consumption changes slowly, while their spatial patterns of consumption are shaped by tradition and price-preferences (market place, discount stores).

Weak segmentation of consumer habits – the legacy of the shortage economy – the fast and often shocking transformation of conditions of shopping, fragmentation and the inertia of domestic actors – all these factors have helped foreign enterprises to assume a key role in shaping consumer culture. Their sophisticated ways of manipulating customers have also furthered this process. The appearance of new types of stores operated in most cases by foreign investors has differentiated society in specific ways. This manifested itself in the growing complexity of mental maps drawn by different social groups of local and regional retail and also in novel attitudes toward new shopping spaces, techniques and products. All these factors contributed crucially to defining consumer habits and the consequent re-drawing of shopping routes. In addition to income, the ability to adapt as a function of qualifications, age and place of living understood in a broader sense (accessibility of new developments, formation of urban/rural consumption attitudes) have all played an important part in the transformation of patterns of consumption. It is to be expected that inequalities rooted in different consumption habits will stay in place. These disparities are sustained by processes of concentration in domestic and international retail, liberal regulatory policies and, finally, by urban planning and efforts at consolidating local budgets in Hungarian towns targeted by commercial developments. However, there is no indication of new sectoral and regional policies to improve the quality of life in undeveloped, deprived areas through a better accessibility of products and services (transport development, support for local suppliers). This is all the more regrettable as Hungarian consumers leaving behind the legacy of the shortage economy regard an ample supply of goods and the possibility of choice as one of the most fundamental positive results of the transition.

NOTES

- ¹ Two of our surveys carried out for different purposes (in 2000, Szeged and in 2004, Békéscsaba, both involving 1000 households) included questions concerning living conditions and various related aspects. According to the answers given, 75-and 80% of the responders (respectively) found that changes of product supply and conditions of purchasing had clearly improved. In both surveys, these two parameters were mentioned as the most important factors contributing to the improvement of living conditions.
- ² Adherents of this school have argued that each new phase of socio-economic development is a ‘partial, temporary and unstable result of embedded social practices rather than the pre-determined outcome of quasi-natural economic laws’ (Jessop 1992: 26, quoted by Amin 2000: 7)
- ³ Anyone without a criminal record and with appropriate qualifications (education) for the activity to be pursued could obtain a license for individual enterprise. However, several restrictions were introduced in 1995, 1996 and 2000, such as the revocation of the license in the case of debts to public authorities (taxes, social insurance or customs liabilities) and

full financial responsibility in a limited or a joint stock company. The Act on Corporations (1990) also permitted individuals, practically with no restrictions, to join any limited and joint-stock company or to become shareholders in domestic corporations. Conditions and institutions of legal control were not defined by the Act in sufficient detail. There were few administrative (quantified) restrictions. Limitations on membership in economic enterprises were put in practice by the new Act on Corporations in 1997 to prevent unlawful activities (e.g. tax evasion) by means of cross ownership.

- ⁴ Successful applicants were granted bank loans at a reduced rate from governmental funds.
- ⁵ The financial crisis was mainly caused by the failure of the Act on Local Governments (1990) to define clearly the framework of re-distribution (i.e. the division of resources centralised by the national government and the part left remaining with local bodies). In the 1990s, the share of local governments from personal income tax revenues (constituting the most significant part of local government income) gradually fell from 50% to 5%. Meanwhile, the range of public services (e.g. issuing entrepreneurial licences, driving licences, passports, etc.) to be provided by local governments was steadily increasing as many such activities were delegated by central authorities to local ones. Meanwhile, resources re-distributed by the government to local governments did not cover the increasing expenses of the provision of such services. The deficit could only be eliminated by increasing local taxes and selling community assets. Although governmental funds for local development have increased, most settlements are still struggling with financial problems on a daily basis. (In many cases, local government debt was caused by the co-financing of development projects.)
- ⁶ The 1999 amendment of the Act on Retail Chambers abolished compulsory membership in retail chambers. In this way, Chambers of Commerce lost not only the majority of their members, but also their former role in governing retail and wholesale activities, in representing retailers' interests and also their mediating function in conflict management.
- ⁷ Due to the concentration of the food-sector, dominated by the most intense competition, in 1996, 5% of all shops realised 43% of the total turnover in 1996. By contrast, in Western European countries, the five biggest companies had the same share of their respective domestic markets.
- ⁸ The most important foreign investor in this category is the German Metro-group. However, the expansion of D-I-Y and discount (Rewe, Delhaize) chains has also begun.
- ⁹ In the middle of the 1990s, customers of what were mainly shops with small floorspace complained more and more sharply about the lack of quality-guarantees, insufficient technical equipment and poor quality goods. Our earlier surveys show that quality-problems occurred mainly in food and clothing retail. Customer surveys conducted at the end of the 1990s signalled significant improvements. Customer satisfaction grew primarily in new (or re-furnished) shops with large floorspaces. The assessment of smaller shops also improved which can partly be attributed to intensifying competition driven by the appearance of foreign investors. (Töröcsik 1994; Horváth and Bajai 2000)
- ¹⁰ Companies with foreign capital claimed a 62% share in investments in the retail sector between 1996 and 2002.
- ¹¹ Cf. Figyelő Top 200 2002.

- ¹² Their share in the sale of electrical appliances grew from 10% to 34% nationwide (twice the amount of the Western European average) between 1996-2001 (Figyelő Top 200 1996, 2002).
- ¹³ In 2003, this group could increase its market share the most, by 4%, with hypermarkets realising a growth of 2%.
- ¹⁴ These include the development of a joint and centralised logistical background, the sale of own brands, the introduction of HACCP, the creation of a corporate profile and the introduction of barcodes.
- ¹⁵ The findings on the structural transformation of consumption are based on interviews conducted with managers of domestic retail chains and organisations as well as on surveys carried out in Debrecen in 1999 and Békéscsaba in 2004.

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Chapter 11

The Role of Business Services in the Development of Peripheral Regions

Zoltán Raffay

Introduction

At present, the number of employees in the business services sector in Hungary is at most half of the figures characteristic of developed market economies. This sector is dominated by the exceptionally high share of the Central Hungarian Region (almost 60% of all business service providers operate here), while the presence of business services in all other regions is quite low. The sector's strength within the economy of a given region can be shown to correlate with the region's economic performance. Consequently, one of the tasks of regional policies is to promote the development of peripheral regions¹ by improving business services.

In the last few decades, economic policy makers have been optimistic about services, business services in particular, as a means of developing disadvantaged regions. It is hoped that a services-oriented approach can provide a long-term solution to the problems of regions with weaker economic performance (Coffey and Polèse 1989). This is because services-related activities can in theory be located anywhere. They are not constrained by familiar considerations concerning location that render unattractive certain regions for traditional manufacturing activities.

As long as one regards an increase in the number of jobs to be synonymous with development, communal or consumer services offer a no less effective means of regional development than business services. If, however, development is defined as entailing structural transformation, improved productivity, higher earnings realised under genuine market conditions and so on, then business services clearly can be said to impact more positively on regional development in the tertiary sector.²

In the view presented here, business services include all intermediate functions that generate input to the production of goods or other services and thereby indirectly form part of production processes (i.e. management consulting, consumer research, advertising, PR, human relations, recruitment, training, data processing and analysis, and further, communications, financial, economic, legal consulting as well as property management).³ These services have the greatest potential to influence the economic development of backward regions for the following reasons:

- in most developed economies, business services constitute the most dynamically growing economic sector;
- these activities form an important part of the economic basis of a given region as they can contribute significantly to its export revenues;
- the organisational structure of companies is increasingly characterised by externalisation, i.e. the outsourcing of activities of the company to external, specialised enterprises or persons. This in turn leads to the proliferation of business services companies;
- the regional distribution of business services can considerably differ from that of other services, primarily that of consumer services. Business services need not be closely located to their clients. In theory, even distant, less densely-populated regions are as suitable for the location of export-oriented business services as central regions;
- possibly the most important reason is, however, that by virtue of the role business services play in investments, innovation and technological change, they can contribute to the spatial restructuring of economic development: they can enable companies to adjust to various changes in their economic environment. At the very least, they can help to decrease the organisational, management or informational obstacles standing in the way of adaptation.

Without intending to provide a comprehensive account of the role played by business services in regional development, I would only like to make a few specific points concerning peripheral regions. I will also discuss in more detail factors influencing the location of business services which are directly relevant to regions outside central areas.

The question of location is crucially important for the study of the relationship between business services and regional development. Empirical investigations have shown that business services tend to appear in patterns of high concentration due to their special locational needs (demand for qualified labour, reliance on subsidiary service activities in close proximity, having to be located near target markets). For this reason, the range of possible locations for advanced business services is quite restricted outside larger towns. Significant growth of business services outside large towns mostly has taken the form of deconcentration (i.e. the development of business services in suburban areas) rather than that of genuine decentralisation.

A tendency running opposite to the dominant trend of concentration can also be observed, however, in the spatial expansion of business services. Increasing division of labour (Eberts and Randall 1998) and the appearance of special service activities have followed a different locational pattern. A considerable part of the information generated by business services activities can be transmitted via telecommunications channels, while another part is individualised to such a high degree, being so tailored to complex or subjective special needs, that no technological application can replace personal encounters (Illeris 1989). This process enhances the appeal of regions with a rich informational infrastructure and an attractive residential environment. Meanwhile, traffic junctions of suburban areas easily accessible by car can also become preferred locations of newly-established business services (Hessels 1994).

One can distinguish between knowledge-based and less advanced business services within the sector of business services. The first category shows a strong tendency towards concentration, whereas the latter naturally moves towards decentralisation always keeping pace with the growth of markets. Within the business services sector itself, activities involving a rapidly growing number of companies tend to expand geographically away from larger centres (Pedersen 1998). At the same time, the decentralisation of business services usually involves only standardised, routine functions (Coffey and Polèse 1989, Raffay 2001). The growth of business services has accelerated due to this process even outside traditional industrial areas, although the location and success of new services enterprises has been restricted by a number of factors. First, the demand of a given region for business services can be met by services imported from elsewhere. This is particularly true of locations whose head offices are situated outside the region. Such locations are usually only weakly integrated into the local economy. Another restricting factor lies in the fact that only a small number of local SMEs are at a 'stage of development' in which they would need to rely more heavily on business services. This is because the decentralisation of manufacturing usually involves standardised products.

The supply, quality and price of business services infrastructure is particularly important for SMEs in peripheral regions. Locally available business services impact crucially on the competitiveness of smaller enterprises because larger companies can purchase special expertise necessary for their activities from elsewhere as well. For the latter, supply and demand do not necessarily have to overlap in spatial terms (Hitchens 1997).

Services Development Solutions of Successful Enterprises in Peripheral Regions

Traditional theories of regional development had long regarded the territorial aspect of developed capitalist economies as being made up of two fundamentally different types of space: core areas concentrating manufacturing and services, on the one hand, and peripheral, backward or industrially declining areas, on the other. However, the unexpected success of a series of peripheral or semi-peripheral regions, such as the Silicon Valley or Orange County in California and the 'Third Italy', which drew attention to themselves as new focal points of industrial innovation and growth, completely overthrew this conception in the 1970s and 1980s. Most authors believe that local conditions play a central role in the process of development (Vaessen and Keeble 1995). There are companies, however, that are capable of survival and even growth outside the core areas of a given economy, whether in urban areas or in new industrial centres.

In the United Kingdom, for instance, it has been found that economic conditions in peripheral regions of the country do not necessarily impact negatively on the enterprises operating in such regions (Vaessen and Keeble 1995). Newly-established enterprises of the 1980s in Wales, Scotland and North England could boast much quicker growth than their counterparts in the South of England despite the fact that

their respective economic environment did not offer as wide a range of agglomerational advantages and economic opportunities as were available in Southeast England. (British and Dutch findings indicate that this is partly to be explained by the heightened 'awareness' of potential entrepreneurs that external conditions are less favourable. For example, confronted with narrower local markets only the best endeavour to launch their own companies, whereas in a more advantageous economic environment more people may be willing to risk to do so.)

The unequal intensity of competition in various regions considerably influences the growth and development of companies. There are two differing views on the correlation between competition and the growth of small enterprises. Some hold that peripheral regions offer an environment more favourable to SMEs than the urban space of large towns. The reason is that in a less lively economic environment there will be a lot fewer potential competitors. Newly-established enterprises have been claimed to develop more easily in such a protected environment. According to the second view, by contrast, the presence of actual and potential competitors in core areas constitutes an advantage rather than a disadvantage in terms of competitiveness. Enterprises in peripheral areas are forced to compensate the failings of the labour market by means of specific strategies, e.g. by organising training programmes themselves. Peripheral companies displaying the quickest growth provide professional, external as well as internally-organised training for the benefit of their employees. Regional policies for the training of workforce in peripheral areas ought therefore to give priority to supporting the services of external and specialised educational institutions. They should provide incentives to enterprises to participate in training programmes. In addition, regional policies should give priority to the range and quality of training programmes whether internal (organised by the companies for their own employees) or external (available to such enterprises).

Services-oriented regional development policies can rely on less practical experience than development policies in other economic sectors. At the same time, services development policies of the European Union already look back on a history of four decades.

In the beginning (from the early 1980s), development objectives were to be met by concentrating on the supply side of services. Thus for the purposes of development in peripheral areas, services development policies sought to extend the range of business services offered there in order to render these areas more attractive for manufacturing and other economic sectors. The adoption of services-oriented policies was greatly favoured by the recession beginning in the mid 1970s. Innovation and research-based development were given more emphasis.⁴ Budget cut-backs led to decreasing regional development subsidies, but business services claimed a greater share of these than before. In a number of countries (e.g. Germany, Ireland, the United Kingdom and Italy), regional policies accorded greater benefits to services development programmes (Coffey and Polèse 1989).

Services development policies of recent decades enable us to draw certain conclusions. European incentives have not always proved successful in developing

backward regions or even in creating more employment. Various reasons may explain the relative failure of such policies:

- regional political support has continued to give preference to manufacturing;
- insufficient familiarity with economic theories of the services sector;
- regional policies aimed at the development of services have not been able to separate consumer services from exportable business services;
- spatial concentration of company management and the segmentation of company functions has remained unchanged between respective company headquarters and organisational units: individual units have continued to purchase services from areas outside the region which has impacted negatively on the regional development of services enterprises;
- arguably, the greatest problem is, however, that the majority of services development policies concentrate on the development of services in isolation from other economic sectors ignoring the connections of business services to manufacturing and in some cases to other economic activities as well.

The scope of services-oriented regional policies in developing peripheral regions appears to be quite limited. Not even specifically targeted services development policies have been able to reverse centralizing trends which advanced business services have been prone to. It is of course necessary to include the support of business services in regional development policies, but it is also to be accepted that the growing number of employees in business services does not affect developed and backward regions to an equal extent.

Local services development policies which have proved successful in peripheral regions tend to emphasise the combined development of manufacturing and business services and focus both on the supply and demand side of business services. Incentives to the supply side cannot be successful unless sufficient demand is available, more specifically, unless there is sufficient local demand for the supported services. And it is precisely in peripheral areas that such demand is usually lacking.

Support for the supply side can include measures such as the adoption of comprehensive human resources policies (workforce training) or the provision of direct incentives to promote the launching of business services enterprises. In addition to training and educational initiatives, human resources policies can also be aimed at enhancing the social, cultural or political environment of a given town or region in order to render it more attractive in the eyes of highly-qualified employees.

Demand-oriented approaches involve specific policies to generate demand for developed business services. Such development policies may support the substitution of imports in the area of producer services encouraging companies with locations in the region but with head offices outside to purchase locally available services.

The finding that applies to development policies in manufacturing and services in general holds true for both demand and supply-oriented policies as well: they are much more effective when deployed in combination than in isolation.

It appears that the development of services outside economic core areas has to be restricted to the following strategies (Coffey and Polèse 1989):

1. Development of business services catering for demand generated by local economic activities;
2. Development of business services catering for the local public sector;
3. Support of certain standardised and routine back-office services;
4. Promotion of exportable specialised services based on know-how acquired from local agricultural or industrial activities.

In the first and second cases, the actual contribution of services to the development of the local economy lies in the creation of employment opportunities and the replacement of services imported from outside the region. The third solution may be important for creating employment as well, although it is unlikely to generate significant growth. By contrast, the fourth solution, i.e. developing specialised local expertise and turning into an exportable good, can offer the possibility of a real breakthrough for peripheral regions. Needless to say, since the situation of peripheral regions is by no means identical, every region has to adopt its own individually fashioned development strategy.

The Development of Business Services in Hungary before the System Change

In Hungary, the capitalist economy emerged during the late nineteenth century and in the decade preceding the First World War. The capitalist transformation of the economy extended to all economic spheres, but affected primarily the industries. As a consequence, however, services developed as well. The share of the services sector was relatively high around this time. Approximately a quarter (24.2%) of all active employees worked in the tertiary sector. (Although it is true that this was due less to economic modernisation and a concomitant rise in the demand for services than to the high number of domestic servants.)

The First World War put an end to industry-driven economic growth. Hungary continued to remain a predominantly agricultural country despite the fact that industrial and services workforce increased at the expense of agricultural jobs.

During the four decades from the turn of the century until the Second World War, the workforce leaving agriculture sought employment in the services sectors due to slow industrial development. There was no trace in the Hungarian economy, however, of an explosive change radically transforming the employment structure. The period was characterised rather by the piecemeal growth of tertiary activities. Industrialisation led mainly to the above-average expansion of transport, trade and banking.

After the Second World War, Hungary set out on the path of 'building socialism' as a semi-developed agricultural country. Economic structure inherited from the previous capitalist period was poorly developed (this was especially true of public services). One of the fundamental, expressly stated objectives of the socialist transformation was to satisfy the needs of all members of society. For this reason, in the 1950s services related to physical and intellectual needs of citizens (education, health, culture) developed at a higher rate than in capitalist countries (although original level of development was much lower too).

The development of services in the first phase of socialism was ambiguous. Given the overall backwardness of the economy at that early stage and the policy of forced industrialisation, distributive policies aimed solely to meet primary needs of the population. Meanwhile, the development of some services (public services) was given priority even during this time. In other words, the growth of socially-oriented, free or at least heavily-subsidised services was given priority over producer services. Distributive policies were marked for a long time by the scarce availability of products as against a relatively ample supply of social services which could be acquired free of charge or at very favourable prices.

The improved supply of products accompanying the rise of living standards led, however, to growing demand for other kinds of services, namely consumer services. (This development involving an increased demand for transport, leisure services, etc. had taken place in developed market economies about 50 years earlier.) Business services (if it is appropriate to talk at all in the present sense of a business services sector in the state-planned economy) began to develop only at the latest phase of the state-planned economy. Even at that time, however, compared to market economies their performance was poor, operating with low levels of employment.

The territorial structure of the services sector showed a much more balanced picture than after the system change when genuine market forces began to exert their influence (initial disparities among the counties were becoming smaller and smaller during the decades of socialism, cf. Kiss 1998; Barta 2001; Kovács 2002). Leaving aside Budapest and the national average strongly influenced by the capital's outliers, it will be found with regard to respective workforce shares in the tertiary sector that the ratio of difference between the most tertiarised county (Pest) and the least tertiarised one (Szabolcs-Szatmár-Bereg) was 1.7 in 1949. In 1960, the same figure was only 1.55 (again between Pest and Szabolcs-Szatmár-Bereg counties). The difference ratio was only 1.36 between the most and least tertiarised counties in 1970, 1.33 in 1980 and only 1.31 in 1990.

Interestingly, precisely the counties that rank among the most successful (in terms of their respective GDPs) have recorded the smallest changes in the share of employees in the services sector (Budapest, Fejér and Komárom-Esztergom), although it is also true that the three counties immediately preceding this group belong to the weakest in terms of their contribution to the GDP. In any case, employment in the tertiary sector has grown most dynamically in counties ranking among the country's least prosperous regions (Szabolcs-Szatmár-Bereg, Somogy, Bács-Kiskun, Békés, Tolna). In other words, 'development' is to be understood in relative terms. It is more a case of decreasing handicap or a slow reduction of disparities than that of dynamic development in the services sector.

Breaking down in terms of present NUTS-2 regions changes in the relative size of the workforce employed in the services sector during the decades of socialism, we will find the same tendency as in the case of individual counties, i.e. a gradual reduction of regional disparities. The number of services jobs has increased most among the least tertiarised regions at the beginning of socialism. Once again,

therefore, we are dealing with a gradual balancing out of inequalities as in the case of individual counties too.

Levels of tertiarisation at the time of the system change, on the one hand, and current economic performance and competitiveness, on the other, do not correlate very closely for a number of reasons:

- there was little difference among regions in terms of the relative shares of the tertiary workforce from the total regional workforce in the final period of socialism;
- employment figures of the time include all services without isolating business services which, however, have the strongest impact on regional development;
- ‘success regions’ of the day owe their prosperity to their strong manufacturing sector, the role of the tertiary sector being less significant.

Similarly, the socialist period brought about a gradual decrease in the difference among respective shares of individual regions in the total Hungarian tertiary workforce.

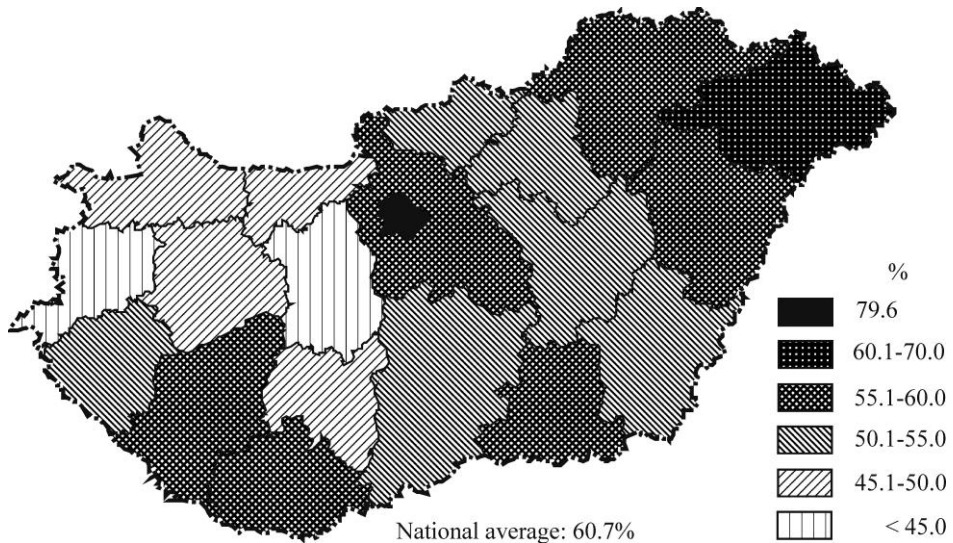
Unfortunately, it is not possible to study the regional distribution of business services on the basis of figures listed in census yearbooks. Business services played a much less important role in the socialist economic system than under market conditions of free competition. (There was simply little need for such services in a centrally-planned economic system. The development of diversified organisations and services was generally neglected. Finally, the growth of the tertiary sector was also hindered by the fact that modern technologies were not compatible with the system and were thus introduced at a very slow pace.) The marginal position of business services was also indicated by the fact that they were ignored in statistical surveys. Consequently, it is now impossible to estimate the significance of business services on the basis of official statistical figures of the time.

The Development of Business Services in Hungary after the System Change

The share of tertiary employees grew from 53.3% to 60.7% in the total workforce between 1992 and 2001.⁵ Significant discrepancies can be discovered among the counties in a breakdown of the national average. The lowest figure was 43.3% (in Fejér county), while the highest was 62% (in Szabolcs-Szatmár-Bereg county) after Budapest (79.6%). The relatively high national average, in comparison to that of individual counties, is due solely to Budapest’s strongly tertiarised employment structure (79.6%). The national average, excluding Budapest, is only at 53.4%. That average indicates a thirty-year disadvantage in comparison to most developed industrial countries.

The most strongly tertiarised counties tend to have county seats or large towns (often university towns) with dominant positions within the county itself. Large towns generate higher tertiary employment because of their administrative, educational, cultural and health functions.

Figure 11.1 Share of tertiary employees in the total workforce of Hungarian counties (2001)



Source: Author's compilation from County Statistical Yearbooks issued by the Central Statistical Office (KSH).

A graphic representation of the share of services within the employment structure of individual counties reveals an obvious disparity between Western and Eastern parts of the country (Figure 11.1). The share of the tertiary workforce is highest in the Eastern part, whereas the most successful counties with the highest GDP and lowest employment are the least tertiarised (although this has more to do with the fact that these are the most industrialised counties which also recorded the smallest decline in the number of industrial employees). At the same time, Eastern counties are typically dominated by less productive and lower paid public and consumer services instead of business services.

Advanced business services continue to play a very marginal role within the tertiary sector in Hungary today. While in advanced market economies 10% of the total workforce is employed in this area, a comparable figure was only recorded in Budapest. The overall national average only came close to this value as long as Budapest was also included. Excluding Budapest, however, only 5.1% of the Hungarian workforce is employed in this sector, i.e. hardly more than half of the desirable level.

Only Fejér county recorded a share higher than the national average. In all other counties, employment in business services remains far below the national average (which, as remarked above, is already distorted because of the strongly dominant

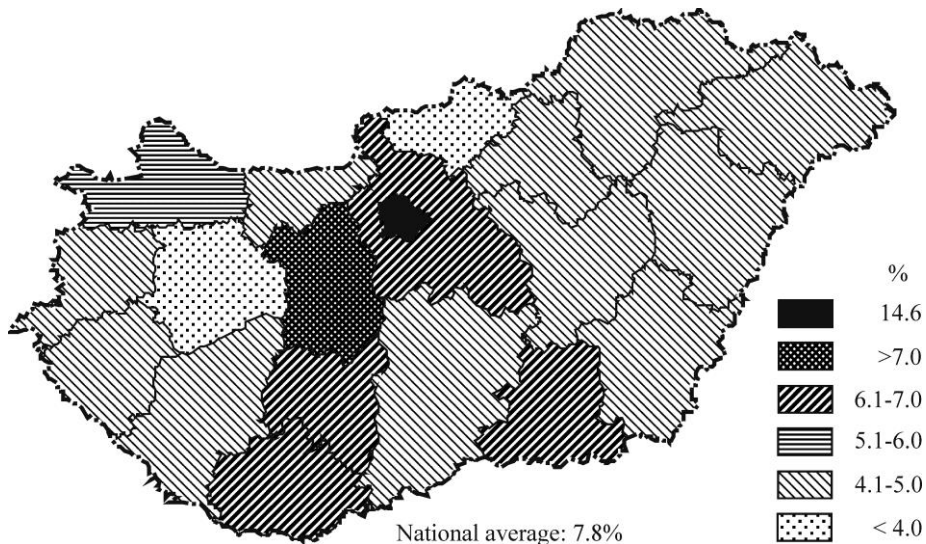
role of the capital as a provider of business services). The national average without Budapest is very low not exceeding 3.7%.

In 1992, the difference ratio between the most developed and weakest counties (Fejér and Szabolcs-Szatmár-Bereg) for relative shares of business services was 3.1 – discounting Budapest once again. Szabolcs-Szatmár-Bereg county took the last place in 1996 as well. In comparison to the latter, the number of those employed in the business services sector was 1.8-fold higher in Heves county. Nógrád took the last place in 2001, while Fejér county was once again first. The difference ratio was 2.4 in this year. In other words, employment in business services showed much more significant territorial differences than the whole of the tertiary sector in all of the years studied.

The same East-West division holds true for the territorial distribution of ‘strong’ and ‘weak’ counties in business services as for the entire services sector. Transdanubian counties tend, however, to record the highest share of employees in the business services, while their Eastern counterparts have the lowest employment figures in this sector (Figure 11.2).

In both cases, Budapest’s figures tower high above those of all the counties. At the same time, while the capital only exceeds the national average by one-third for the services sector taken as a whole, the difference is almost exactly two-fold for the business services sector.

Figure 11.2 The share of business services employment in the total workforce in Hungarian counties in 2001



Source: Author’s compilation from County Statistical Yearbooks issued by the Central Statistical Office (KSH).

Table 11.1 The share of individual regions in the total services workforce and in the business services workforce in %, 1992–2001

Region	1992		1996		2001	
	Tertiary employees	Business services employees	Tertiary employees	Business services employees	Tertiary employees	Business services employees
Southern Transdanubia	8.6	7.2	8.2	6.6	7.9	6.1
Western Transdanubia	8.7	5.9	8.7	6.9	8.8	7.0
Central Transdanubia	7.9	7.3	8.1	7.7	8.4	8.6
Southern Great Plain	10.5	8.0	10.4	8.7	10.5	7.6
Northern Great Plain	11.8	5.8	11.9	8.0	11.5	6.6
Northern Hungary	9.7	8.6	10.2	8.3	9.4	5.9
Central Hungary	42.8	57.2	42.5	53.8	43.5	58.2

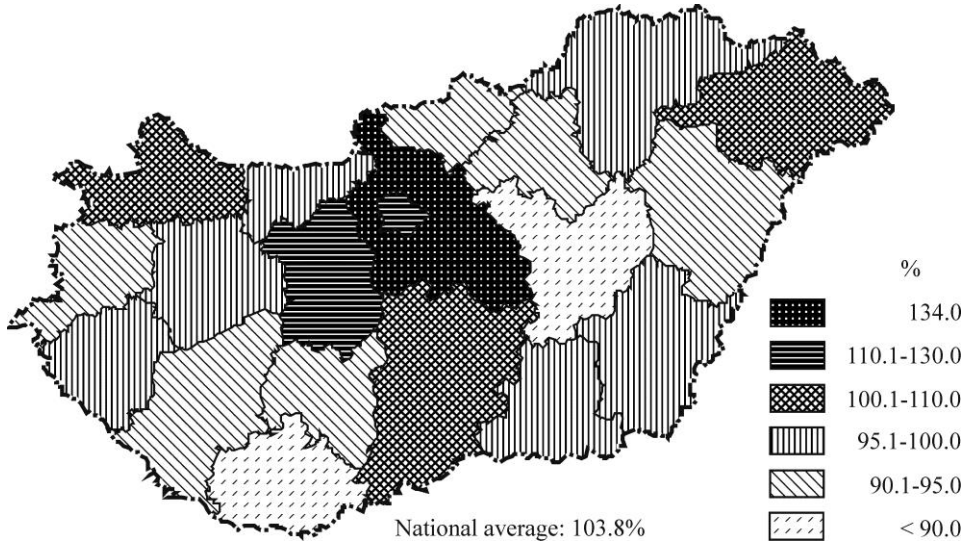
Source: County Statistical Yearbooks of the Central Statistical Office (KSH).

Analysing the changes in the share of employees in the entire services sector and specifically in business services between 1992 and 2001, and breaking down the share of individual regions in the total tertiary workforce as opposed to their respective shares in the business services workforce, it will be found that the significance of Southern Transdanubia, Southern Great Plain and Northern Hungary in the employment structure of advanced business services has decreased since 1992. By contrast, the share of the Northern Great Plain has increased slightly and that of the Western and Central Transdanubian regions considerably over the same period (Table 11.1).

A more realistic picture of the changes can be obtained by not restricting the analysis exclusively to the share of the tertiary sector, or that of business services specifically, within the total workforce, but by also extending the analysis of the changes to absolute numbers of services sector employees as well. This is because in the case of a restricted analysis the decline or rapid development of other sectors can make the expansion of tertiary employment appear disproportionately high or low.

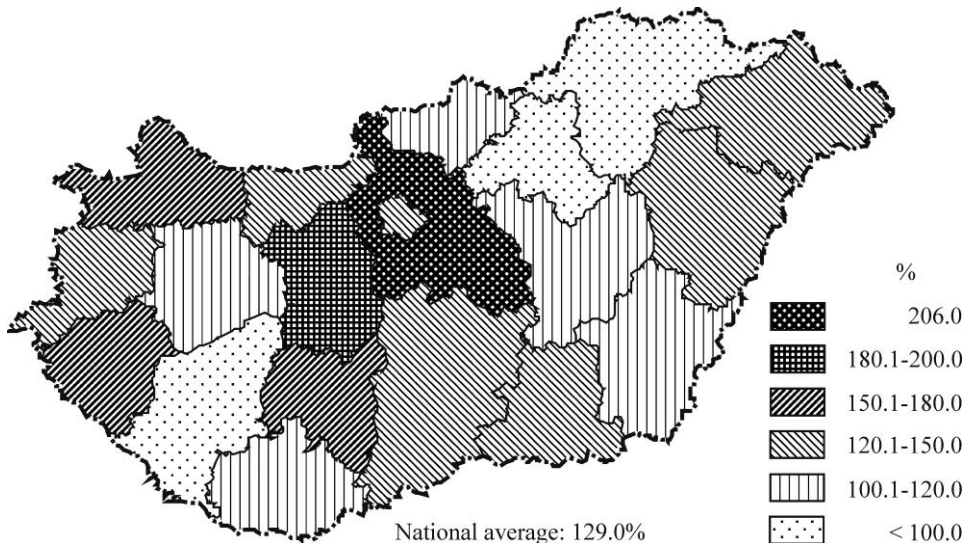
Representing the changes in the number of tertiary and business services employees in individual counties, relevant territorial disparities will only be found with regard to employment changes in the business services. The number of business services employees has increased to a larger extent in Central Hungary and the Northwestern part of Transdanubia (Figure 11.3).

Figure 11.3 The growing number of services employees in Hungarian counties between 1992 and 2001



Source: Author's compilation from County Statistical Yearbooks issued by the Central Statistical Office (KSH).

Figure 11.4 The growing number of business services employees in Hungarian counties between 1992 and 2001



Source: Author's compilation from County Statistical Yearbooks issued by the Central Statistical Office (KSH).

A regional-level analysis of growing employment in the business services between 1992 and 2001 will reveal the prominent positions of the currently most successful Hungarian regions. A growth rate exceeding the national average was recorded only in Central and Western Transdanubia and the Northern Great Plain (Figure 11.4).

The Main Priorities of Services-oriented Regional Policies in Hungary

Since the development of business services is strongly correlated with the economic performance of a given region (which correlation holds invariably true at national, regional and micro-regional levels), intervention is most needed in regions whose performance is far below average (unfortunately, this is true of most of Hungary). Each type of region necessitates, however, a different approach (Nagy 2001):

- in areas with poor generic indicators and/or concentrated territorial structure, it is important to strengthen the centres capable of providing business services and thus generate more diversified demand, in particular through the development of infrastructure (which should take specific territorial considerations into account as well);
- in addition to developing the supply side, it is also important to strengthen and support the demand side (including the companies, mostly SMEs, relying on business services) by improving familiarity with services and by increasing awareness of the benefits they can yield;
- in the centres of industrial regions struggling with structural problems, it is crucial to enhance the flow of information relevant to technological investments and structural transformation. It is necessary to introduce various mechanisms enabling economic organisations to re-apply solutions developed in knowledge-centres;
- in addition to the location of production sites, decision-making processes are also to be decentred at least in parts. This can help to increase the share of locally purchased services;
- companies suffering from the lack of capital, in particular domestic SMEs, ought to be supported in purchasing business services, both financially and through the provision of trainings on the various types and possible advantages of such services;
- the creation of a nationwide or regional database can promote the building and more efficient functioning of networks among providers and users (similarly to the Business Link initiative in the United Kingdom);
- perhaps most importantly, however, it would be crucial for national-level regional development to pay more attention to services-oriented regional policies. Hungarian programmes for regional and countryside development (NFT – National Development Plan, AVOP – Agricultural and Rural Operational Programme) still assign a much lower priority to the development of the tertiary sector in general and that of business services in particular than to improving conditions in manufacturing, human resources or linear infrastructure (or agriculture in the case of the AVOP).

Conclusion

Advanced business services are concentrated predominantly in large urban centres and hence do not contribute to the economic development of peripheral regions. At the same time, services-oriented regional policies include some strategic components that could be taken into account in setting new development priorities for regions. In an economic sense, a considerable part of Hungary is to be classified as peripheral. This reality calls for political intervention. Each type of region requires, however, a different approach. The objectives of services development policies can be most effectively pursued by providing incentives simultaneously both to the demand and supply sides of business services and by jointly developing the business services provider and client sectors.

NOTES

- ¹ In the literature, periphery is defined as an area at a distance from the concentration of economic activities and centres of economic decision-making in particular, with lower-than-average population and enterprise density, to a large extent dependent on economic decisions made outside the region. Unfortunately, the larger part of Hungary (with the exception of Central Hungary and the northern counties of the Transdanubia) is to be regarded as economic periphery in this sense.
- ² Some authors (cf. Begg 1993; Illeris 1994, 1996) regard consumer services as similarly important for regional development. This is because these services can greatly contribute to creating a comfortable and attractive environment in a certain area for the kind of highly-skilled labour that plays an increasingly significant role in modern production processes.
- ³ I treated as business services those activities that are assigned code J (financial activities) or K (real estate, leasing and subsidiary economic activities) in the Central Statistical Office's database on active employees.
- ⁴ The rapidly accelerating growth of the business services sector from the 1970s and 1980s was due, however, not to deliberate regional development policies. The explanation has much more to do with the disintegration of Fordist companies, the organisation of a series of activities into independent flexible companies and the appearance of new technologies, in particular the spectacular development of informational and communication technologies.
- ⁵ I take the year of 1992 for comparison because the employment database of the Central Statistical Office (KSH) agrees with the present system of classification and the NACE systems only from this year onwards.

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The Development and the Polarised Spatial Structure of the Hungarian Banking System in a Transforming Economy

Zoltán Gál

Introduction

The creation of a two-tier banking system in 1987 ‘re-established’ the modern Hungarian banking system. There can be no doubt that the Hungarian financial sector lagged significantly behind that of more developed countries in the 1990s even as regards territorial distribution. Nevertheless, it seems legitimate to refer to the ‘inherited backwardness’ of the banking sector only as far as the phases marked by the socialist period and the transition to market economy are concerned. This is because Hungary did actually have a European financial system and a dense banking network already by the end of the nineteenth century. In the socialist period when capital and financial markets were comprehensively dismantled, one attempted to compensate for the subordinate role of the credit system by current asset financing through the government budget. The key element of the system was the National Bank of Hungary that served not only as a central bank but also as a commercial bank taking on corporate financing as well. Until the end of the 1960s, the one-tier bank system of financing could be well accommodated with a mode of economic control in which credit demands of economic actors were determined by central planning. The weak and subordinate banking and credit system had no significant role to play in the territorial redistribution of resources.

In the period of socialist planned economy, there also existed a financial institution specialised in retail deposit services (OTP) as well as another bank responsible for the financing of foreign trade in addition to the central bank, already mentioned, which served both as a central bank and a commercial bank. Further banks had been established with mixed profiles already before the introduction of the full-blown two-tier banking system. The primary function of these was to assist foreign-owned companies. During the 1980s, other ‘bank-like’ financial institutions

were established as a result of sectoral cooperation. These were later to become legal predecessors of future banks. The 1987 bank reform, however, radically transformed the function of the banking system.

The Establishment of a Two-tier Banking System and its Stages of Development

The Hungarian bank reform preceded the change of political system by three years. It was to have pioneering significance in Eastern Europe. With the separation of central banking and commercial banking functions in 1987, a two-tier system was established. The political decision was taken in response to economic pressure. Hungarian financial institutions included at this point major *commercial banks* carved off the central bank. These were given access to significant state resources. In addition, this group also comprised *OTP Bank* which had been licensed as a commercial bank as well as other Hungarian-owned small and medium-sized financial institutions. Finally, there were also Hungarian branches of major foreign banks and financial institutions formed from various organisations managing state development funds. Accordingly, 5 commercial banks and 14 specialised financial institutions started to operate in 1988. The territorial structure of the branch network of commercial banks was set up following the organisation of former county offices and branches of the National Bank of Hungary (NBH). The branch network of the new banks was characterised by marked disparities at territorial and settlement levels. The central feature of their organisational and operational structure was strong centralisation (Lados 1992). A peculiarity of banking systems in transitional economies is that financial markets do not emerge as a result of organic development. The creation of the Hungarian two-tier banking system was an artificial measure supervised by a central authority. Already in the first years of its operation, therefore, this system operated in a highly centralised fashion with a considerable degree of territorial concentration. It must also be noted that this territorial concentration was entirely consonant with international trends, although of course it was not, as elsewhere, the outcome of the globalisation of financial markets starting in the 1970s.

The analysis of *the development of the Hungarian two-tier banking system in the last 15 years* shows five distinct stages (Gál 2000):

1. The short period between 1988 and 1992 saw the creation of financial markets. It can be regarded as the period during which *the establishment of new banks* was most vigorously pursued. By the end of this stage, 44 Budapest-seated banks were present on Hungarian financial markets. The first 'greenfield' foreign banks also appeared on the Hungarian market. At the beginning of the 1990s, the Hungarian banking system – similarly to its Eastern and Central European counterparts – faced the problem of reintegration into international markets, while also witnessing the swift spread of foreign capital which was to play a leading role in accelerating modernisation and privatisation.
2. The period between 1992 and 1995 was characterised by *the extensive growth of the banking network*. This period involved bankruptcies and the regulation of

the supervision of the banking sector as well as *bank and credit consolidation* with significant state participation. The latter measures served in the majority of cases to prepare *the ground for the privatisation* of financial institutions. The years 1991 and 1992 saw, first, the passing of the Act on the Regulation of Financial Institutions, second, the creation of a monitoring system for the banking sector, and third, the Act on the Central Bank. The latter laid down legal guarantees for the independence of the NBH (many regard this as the real starting point of the two-tier banking system). However, it is important to note that banks were established amidst the general recession of the early 1990s. The sudden onset of rapid growth, the amount of inherited bad and irrecoverable corporate credits and intensifying competition posed by foreign banks all led to a substantial worsening of the positions of state-owned banks and a shrinking of their market shares (Csáky 1997). Between 1992 and 1995, the state contributed 4 billion USD, i.e. 10% of the annual GDP, for the purposes of consolidating the banking system. This money was in part used for the re-capitalisation of banks in order to reduce a former 80% state ownership to 25%. However, consolidation of the banking system was crucial not only to avoiding a financial crisis and stabilising the budget, but was also a precondition of the large-scale involvement of foreign capital in the privatisation of the banking sector (Várhegyi 2002).

3. The period between 1995 and 1997 saw the peak of the highly successful privatisation of the banking sector. The most important result of this was the inflow of foreign banking capital into the domestic financial sector. The share of FDI into the banking sector was high in European comparison at that time, although it is no longer outstanding in the region today (Table 12.1). The new ownership structure emerging by 1997 was dominated by foreign capital. Stabilisation of the banking system that had started in 1995 continued, while the safety reserves of financial institutions increased. 1997 marked the beginning of a slow expansion of the banking system. The rapid ‘de-nationalisation’ of the Hungarian banking system was unique in the region. It created a peculiar ownership structure, differing from the majority of developed countries as well, in which the market share of the foreign-owned sector reached around 75% by 2003. Today, the banking sector has the highest ratio of foreign involvement in Hungary. The rapid privatisation of the banking system without further state investments was possible only through the involvement of foreign capital (Várhegyi 1997). The inflow of foreign capital substantially contributed to maintaining the international competitiveness of Hungarian banks (Wachtel 1997). By 1995, nearly 70% of all banking revenues were generated by foreign banks which claimed a 25% share of the market. Their profitability was twice as high as that of domestically owned banks (Várhegyi and Gáspár 1997). Foreign banks are present as long-term strategic investors on the Hungarian market. This is indicated by the fact that profits are increasingly *ploughed back into the enlargement of their branch network*. By virtue of its multiplicative effect, capital flowing into the banking sector intensified direct capital investment in the whole economy.

Table 12.1 Assets of foreign-owned banks* as a percentage of the banking sector (2000)

	1995	1996	1997	1998	1999	2000
Hungary	41.8	46	61	64	66.4	68
Czech R.	10	12	15	16	28	54
Poland	4	14	16	17	49	70
Slovenia	–	5	5	5	5	5

*Foreign ownership above 50%

Source: Riess et al. (2002)

4. Following a significant restructuring of ownership, the period between 1997 and 2004 was characterised by a progressive adaptation to structures of the European banking system. At present, 80% of all banks are in majority foreign ownership. In accordance with international trends, these foreign-owned banks operate as integrated members of groups with significant capitalisation and a strong background in the international finance or insurance sectors. This can be regarded as a transitional period between the expansive development of the banking sector and the creation of mature banking structures. Nevertheless, the spectacular increase in the number of banks had come to a halt by the end of the 1990s. The establishment of foreign-based banks in Hungary is counterbalanced by mergers, liquidations and the general concentration of banking activities becoming more pronounced around the turn of the millennium (Gál 1999). Some structural changes took place in the banking system as well. Specialised financial institutions (mortgage banks, building societies) appeared as new players on financial markets. This period witnessed the saturation of the corporate banking market and the growing interest of banks and specialised financial institutions in retail markets. At the same time, deconcentration, which is a natural concomitant of the evolution of the banking market, was accompanied by an accelerating process of concentration as well. Several mergers took place in the early 2000s (ABN Amro and K& H Bank, HVB and Bank Austria, Erste Bank and Postabank). The crucial feature of this period was an increasingly rapid drive towards the formation of ‘universal banking institutions’, i.e. the integration of investment and insurance activities previously functioning as separate units within banking groups.
5. The next stage in the development of the banking system began with Hungary’s accession to the European Union in 2004. No dramatic changes are expected in this period given that the integration of the Hungarian banking system had been essentially complete by the beginning of this decade. At the same time, due to rapid global developments in financial services, the Hungarian banking system is still to face a substantial process of re-adjustment. Today, Hungary possesses one of the most developed banking systems in the region. The advantages of the transition to a two-tier banking system are still evident. Capital stability of Hungarian banks is good, although the banking system itself is quite small. *Total bank assets amount to 70% of the total GDP*, which is a relatively low

ratio according to European standards. In sum, there is still room for development.

Following accession to the European Union, it is not expected that new banks would enter the Hungarian market with the sole purpose of opening new branches since they would have to face keen competition on what is an already saturated banking market. Apart from its somewhat protracted development and certain domestic peculiarities, the whole of the banking system clearly faces the same structural challenges and problems as banks in Western European countries. This is of course partly due to the high share of foreign ownership. The number of banks has stopped growing. In fact, a slight decrease has been registered. This is to be attributed to the shrinking role of banking mediation (disintermediation, no dynamic increase in the ratio of capitalisation relative to the GDP), competition posed by non-banking financial intermediaries, the spread of universal (all-finance) type of banking, concentration (mergers & acquisitions) generated by intensified market competition, the introduction of ITC technologies, increasing operational efficiency through cutbacks in the number of employees and the rationalisation of the branch network (centralisation of structural and territorial activities in back offices). At the same time, although more slowly than before, the development of branch networks continues.

Territorial Characteristics of the Development of the Banking Network

Advanced financial services became such crucial elements in the development and competitiveness of regional economies that they can in the long run seriously impact on the *emergence of territorial disparities* (Mazucca 1993). The territorial location and *regional expansion* of bank branches reflect economic developments in Hungary of the 1990s. Following the economic-political transition, commercial banks embarked on a rapid development of their branch networks in Hungary's Western counties. These areas had been neglected in the period of socialist industrialisation. As a result of these developments, *disparities among branch networks of regions disappeared by 1990*. The previous disadvantage of Western parts of the country could be eliminated. The aim of domestic financial institutions was to cover with an evenly distributed branch network what was at the time a relatively small banking market. Branch developments in the 1990s worked towards restoring the balance between Western and Eastern parts of the country. Having reached a relative saturation of Western regions from the mid-1990s onward, the main targets were major towns of Eastern and Southern Hungary.

Although the territorial enlargement of the branch network has improved the accessibility of banks, the country's backwardness in terms of network density is still conspicuous, especially in comparison to the EU-15 average (1923 persons/branch), but even in comparison to the same figures in the Czech Republic and Slovenia. Even though the number of banks is high relative to the overall size of the Hungarian market, branch density is still quite low. Despite a 22% increase of the density indicator between 1998 and 2004, the current figure of 8561

Table 12.2 Territorial distribution of bank branch networks and branch density, 1998–2004

Regions	No. of bank branches 1998	No. of bank branches 2004	Ratio of bank branches 1998 (%)	Ratio of bank branches 2004 (%)	Branch density (population per branch) 1998	Branch density (population per branch) 2004
Central Hungary	304	441	32	38	9434	6417
<i>Out of which: Budapest</i>	253	358	16	31	7356	4762
Central Transdanubia	96	109	10	9	11594	10211
Western Transdanubia	114	127	12	11	8711	7897
Southern Transdanubia	101	111	11	9	9762	8865
Northern Hungary	88	110	9	9	14591	11636
Northern Great Plain	109	147	12	12	14073	10524
Southern Great Plain	132	155	14	13	10295	8774
Hungary	944	1170	100	100	10736	8647

Source: Based on yearbooks of the Hungarian Financial Sector and Stock Exchange.

persons/branch reveals that the country is still insufficiently covered by existing branches (Table 12.2). Financial services accessibility¹ indicators still show considerable differences between Western and Eastern parts of the country. There are inner, disadvantaged peripheries to be found at the micro-regional level in the region of Transdanubia as well. Moreover, such areas can be said to dominate in the regions of the Great Plain and Northern Hungary. The ratio of bank branches per capita clearly ranks the region of Transdanubia first. As a consequence of the intense development of the branch network in Budapest, the capital further increased its share in the network. While in 1997 11% of all branches operated in Budapest, this figure was already at 34% in 2001. Here the density of the network doubles the national average of 4700 persons/branch. By contrast, the region of Central Hungary, regarded as Budapest's 'hinterland', has a lower network density. However, the poorest density and service figures are recorded in the regions of the Northern Great Plain and Northern Hungary. The territorial distribution of banks clearly points to a more intense financial intermediary activity that correlates strongly with economic development.

From the banks' perspective, the development of networks is not driven primarily by regional preferences. It was to proceed instead in accordance with the urban hierarchy. That is to say, in the early stage of network-building, banks tried to cover

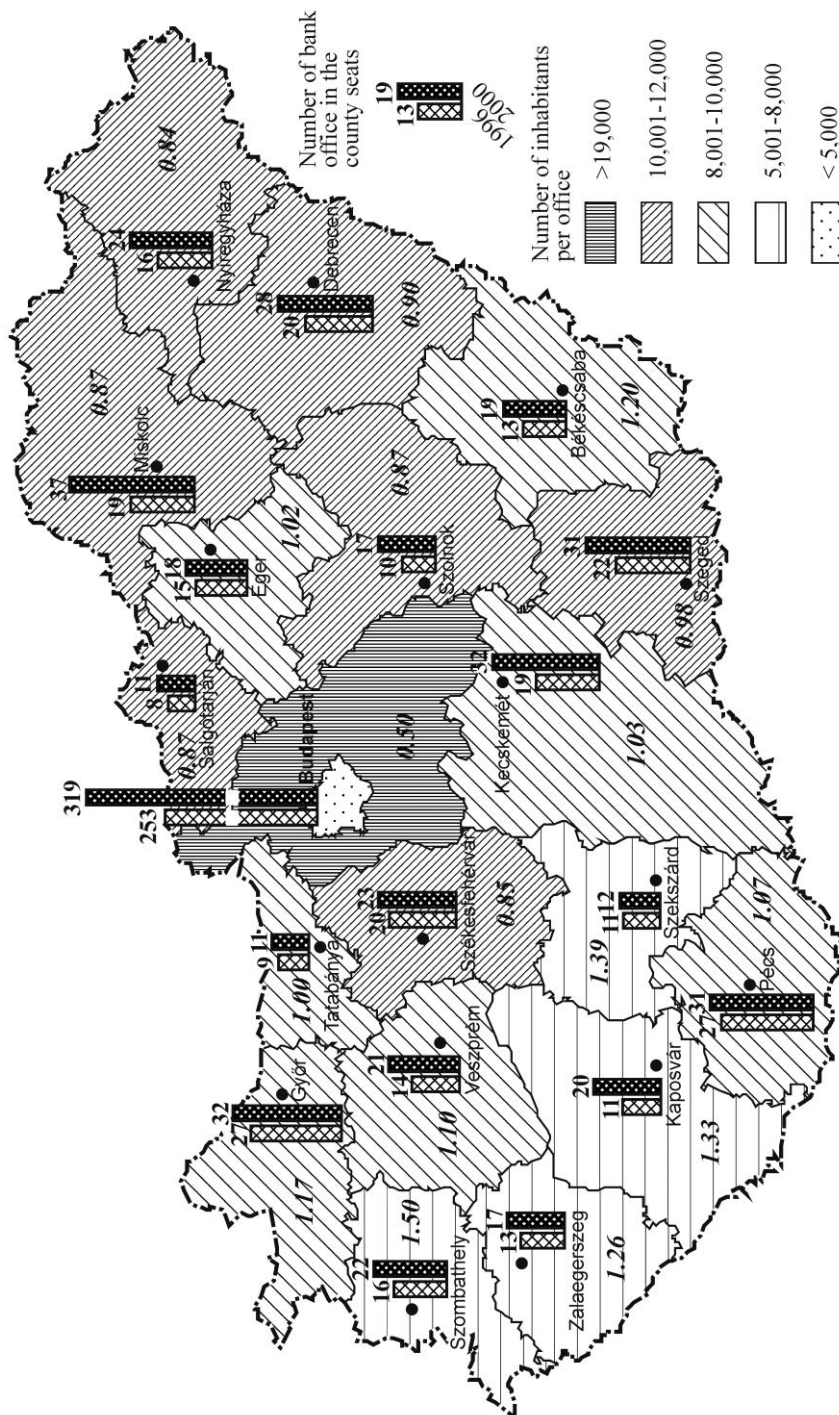
the country while following the hierarchy of settlements, i.e. starting with regional centres and county seats proceeding subsequently to smaller urban centres. Given that by the early 1990s the number of bank branches had equalled the number of major towns, financial institutions turned their attention to towns with smaller populations. The former 50% share of large towns in the branch network (60% including Budapest) fell to 22% due to the opening of branches in smaller towns. Today, the bulk of the branch network (41.5%) is located in towns with 10 to 25 thousand inhabitants. At the same time, the accessibility of services corresponds to the economic prosperity of individual towns. The relative positions of larger towns are best characterised by reference to range of financial services offered and the intensifying competition among banks rather than the mere enlargement of branch networks. In terms of these indicators, some major towns (Pécs, Győr, Debrecen, Miskolc, Szeged) can be said to have started to assume the status of financial centres. In settlements with populations between 5 to 50 thousand, branch networks have slightly increased, while in settlements with populations of 2 to 5 thousand, the number of branches has decreased (Figure 12.1).

Within the services sector itself, business and financial services have the greatest potential to shape space. In addition to manufacturing, business and financial services were responsible for generating the most significant regional disparities during the phase of economic transition (Gál *et al* 2002). There is evidence today of a new, intensive phase of development in the financial sector. Thus in Transdanubian regions showing the most rapid industrial growth, industrial development could provide an impetus to the financial sector as well. The GDP of financial services in many counties increased at a rate that approximated or even exceeded that of industrial growth. In the sector of financial services, the highest increase in generic investment volumes was realised in central and Western regions of the country, a fact that can be explained by the more intensive *concentration* of services in economically dynamic regions. With respect to regional differences, there exists a strong correlation between economic activity, income structures and the distribution of financial services. At the regional level, higher income levels strengthen the position of Budapest and that of Western regions which is also reflected in the greater density of the bank network. The correlation is even stronger between the location of financial services providers and relative levels occupied in the urban hierarchy.

The Territorial Polarisation of the Hungarian Banking System

While at a global level capital often moves independently from economic processes, uneven *capital flows* among regions are typically caused by *inequalities* in economic potential. Financial centres of economic core areas located at the top of the urban hierarchy concentrate the greatest amounts of capital. This results in significant regional disparities (Porteous 1995; Leyshon and Thrift 1997). With the formation of global financial markets and the strengthening of supranational organisations (EMU), the pressure on local and regional financial markets has intensified. This

Figure 12.1 Density of the Hungarian bank branch network and the distribution of branches in towns with county seat functions, 2000



Source: Edited by the author (2001)

foreshadows the growing dependence of local economies on global (trans-national) organisations. Governments of nation-states – especially those of *emerging economies* – are faced with the unenviable task of having to decide whether to assist local economic actors or to support multinational organisations. The real challenge is to find the optimal balance between these two economic domains.

Business finance markets are geographically and organisationally centralised in Hungary. Among Hungary's economic sectors, territorial concentration and polarisation is the highest in the banking and insurance sectors. An analysis of the polarised territorial structure of the Hungarian banking system yields the following conclusions (Gál 2000):

- The Budapest-based organisational-administrative structure of the banking sector is of crucial significance. The Hungarian banking system is organisationally centralised. Budapest contains 33 commercial banks and specialised financial institutions (the only exceptions are the Austrian-owned Sopron Bank and the Budaörs-based Opel Bank founded in 2003). This means in practice that 94% of banking capital stock and 86% of those employed in the financial sector (those registered at company headquarters) are concentrated in Budapest. Foreign bank capital and its organisations focus on Budapest due to its *geographical location which is of strategic importance*.
- The Hungarian banking sector is characterised by the lack of locally founded banks. Only mutual savings banks ('cooperatives') have their headquarters in the countryside. These mutual savings 'cooperatives' operate with more branches than bank networks (accounting for 58% of financial institutional networks), but with a lower capitalisation (6% of total national assets). They lack strong centres and usually have their headquarters in smaller settlements. In recent years, several dynamically developing mutual savings 'cooperatives' were able to meet the requirements for banking operations. These have become significant financial institutions at the regional level.
- The main cause of polarisation is the *strongly centralised hierarchical control of the branch network*. Due to this structure, competencies of countryside branches are restricted. In some cases, even their access to information is limited (informational asymmetry). Today, banks offer the same services throughout the country, i.e. products tailored to regional demands are missing. Strategic decisions concerning future development are taken at Budapest headquarters.
- A further cause of polarisation is the relatively low level of access to services throughout the country. This is manifest in the highly uneven territorial distribution of branch networks in terms of both urban hierarchy and regional levels.

As regards financial services, one can speak of the *dual nature and fragmentation* of the sector *both in organisational and geographical respects*.² The banking and insurance sectors are characterised by the concentration of large companies (large banks) in predominantly transnational ownership. By contrast, domestic providers of financial services (e.g. mutual savings banks) are not significant players on the market. This intensifies the duality of not only the organisational but also that of the spatial division existing between Budapest-based financial services providers

and those outside Budapest that are to struggle with manifold competitive disadvantages. The emerging *dual structure* of financial services, which has also become manifest in spatial terms, is consonant with the centralisation and concentration characterising the transformation of the entire spatial structure of the Hungarian economy. This structure can be best observed in connection with the strengthening of Budapest's '*filtering*' functions (the capital occupying a key position in controlling the flow of information). Globalisation, adjustment to international financial structures, rational constraints on decentralisation and the small size of the Hungarian banking market can only partially explain why banking services are centred in *Budapest* to this extent. In order to account for this phenomenon, many refer to historical factors as well such as the traditional Budapest-centred character of key sectors of the economy (Beluszky 1998). In addition to the factors listed above and the uneven distribution of capital concentration, structural features of the banking sector are primarily determined by market structures existing at the outset of economic transition and the international economic environment of the time.

The international situation in the context of which system change was to take place in Hungary was crucially shaped by two major currents of the twentieth century, namely *globalisation and a (neoliberal) economic paradigm change*. These developments contributed not only to the fall of the Soviet block; they also created rather strict economic conditions for post-communist Hungary about to reintegrate into the international market economy. In the course of this transition, Hungary had to adjust to a world economy fraught by shocks and uncertainties (debt crisis, money market and currency crises), i.e. among competitive conditions that had become extremely disadvantageous. As a country in the forefront of economic transition, Hungary was exceptionally vulnerable and was also to act as an experimental ground for dominant interests of foreign capital (Gazsó and Laki 2004). The only available solution to set off the loss of capital caused by the debt crisis and to avoid an even deeper economic recession was to permit the unconstrained inflow of foreign capital and to liberalise markets far beyond what was accepted in more developed countries. As a result, the chief characteristics of this blend of 'imported capitalism' included a relatively fast recovery from economic crisis but also the dominant role of foreign capital in the process of stabilisation. However, foreign investments not only contributed to the modernisation of the economy, but also increased its structural and spatial segmentation (Szelényi et al 2000). This, of course, has seriously reduced opportunities for capital accumulation in countryside regions. Disadvantages created by the 'dual economy' are increasingly palpable in the area of financial services now that economic transition processes have come to an end and economic constraints have gradually disappeared.

As already mentioned, financial markets of system changing Eastern and Central European countries were not outcomes of organic growth. In the early stages of transition, Hungary's two-tier banking system was created from above and was already strongly centralised with Budapest at the centre. In this sense, the two-tier banking system introduced in 1987 virtually reproduced the earlier Budapest-centred, over-centralised state-socialist single-bank structure, even if more financial institutions existed after this point. In Hungary, early privatisation dominated by

foreign capital led banks to make their strategic decisions about organisation and development, including their choice of headquarters, entirely on a market-oriented basis.

Since banks available for privatisation were exclusively located in Budapest and so were greenfield banking investments, in effect 100% of capital invested in the sector was concentrated here. In several surrounding countries (Poland, Czech Republic), economic policy decisions ensured early on that banks would be established in a decentralised manner by also locating headquarters in the countryside. Nevertheless, the limits of decentralisation in terms of economies of scale manifested themselves in the fact that, by the end of transition, the number of Czech and Polish banks with countryside headquarters decreased. Consequently, there is a stronger correlation today between existing regional bank centres and the performance of local economies.

Territorial and Organisational Levels of the Hungarian Banking System

Modern business and financial services are dominant factors in the economic development and competitiveness of territorial units and regions with a strong impact on the formation of long-term territorial disparities. It follows that different operative levels of the Hungarian banking system are informed by a combination of factors such as the concentration and differentiation of institutions in the financial sector, division of labour necessitated by market conditions as well as organisational-administrative structures of control at financial intermediaries. In developed countries, basic financial services and institutional forms (banks, building societies) are, geographically speaking, more evenly distributed in economic space than other, more specialised finance institutions (stock exchanges, pension funds, bank headquarters, venture companies). Those belonging to the latter group tend to be more concentrated spatially. Agglomeration and special traditions of development can also influence the financial sector. One can also observe historically-rooted clustering processes in certain urban centres and regions. Consequently, the urban hierarchy overlaps with the financial hierarchy to a large degree as a result of which even larger economies typically have only one financial centre.

Budapest's Position on National and International Financial Markets: Prospects for the Creation of a Regional Financial Centre in Eastern and Central Europe

The traditional dominance of Budapest in the past 150 years in the economic and cultural life of the country has not weakened since the change of system. On the contrary, it has even strengthened due to the emergence of a market economy. Particularly significant is the concentration of business and financial services in the capital. As the centre of the national economy, Budapest is also the country's financial centre. International relations of the financial sector are also administered via the capital. All institutions and functions associated with these roles can be found

here. Budapest has the only capital market in the country. It concentrates the head offices of banks, insurance companies, specialised credit institutions, building societies, mortgage banks and lease companies. Organisational units performing national functions (treasury, call-centre) are also to be found in Budapest. The significance of the capital's special strategic geographical location in the national financial system also derives from the fact that important, so-called 'critical information' (i.e. preparation of bank strategies, central data provision, access to the giro-system and stock-exchange listings) flows exclusively via the centre. Institutions for maintaining contact with international financial centres are also to be found here. The number of financial sector employees is over 26 thousand in Budapest accounting for 37% of the total workforce in the financial sector.

What is at stake in the ongoing race among metropolises in Eastern and Central Europe is in part whether Budapest can become a regional business and financial centre with international functions (Enyedi 1992). Nevertheless, contradicting former optimistic expectations, Budapest has not yet become such a regional financial and business centre, the 'Singapore of Central Europe'. At the same time, the Hungarian capital does have the potential to acquire competitive advantages in certain areas of the financial sector in the early 2000s. Such advantages could stem from its central location and its bridging role within the region. In other respects, however, the size of the capital and its surroundings, its proximity to the region of Southeastern Europe, its stable economic environment with favourable infrastructural conditions all constitute features that are not unique in comparison with other regional capitals.

Meanwhile, several factors can be cited for a better assessment of the relative development of the financial sector and its competitive advantages in the region of Central and Eastern Europe:

- The international competitiveness of the Hungarian banking and insurance sector has improved. This sector was successfully privatised, it is dominated by foreign capital and has succeeded in complying with EU standards for a considerable amount of time now. It boasts some of the best quality indicators in the region. Although the country's previous competitive advantage in the financial sector has decreased, it is still leading in terms of available legal and monitoring background.
- Largely due to Budapest's excellent capital-absorption potential, the share of foreign investments remains high.
- The country's capital-attracting potential was also high, at least until the turn of the millennium, after which it has decreased dramatically.
- In the 1990s, several well-known international companies set up their Eastern European headquarters in Budapest. Others have followed this trend at the beginning of this decade.
- Recently, a number of financial services providers have moved their back offices to Budapest hoping to realise cost advantages (e.g. regional back offices of Citibank and KPMG as well as Exxon, the regional financial service centre of GE).

- The operation of the Budapest Stock Exchange (BSE), one of the most dynamically developing stock exchanges in the world, also indicates that investors generally prefer Budapest to Warsaw and Prague. However, competing stock exchanges have also become much more attractive by the early 2000s. Thus the Warsaw Stock Exchange, due to its larger capitalisation, poses serious competition to the Budapest Stock Exchange. With the acquisition of a significant share of BSE, the HVB Group, a part-owner of the traditionally strong Vienna Stock Exchange, plans to realise a Vienna-based regional integration of stock exchanges.
- Budapest's role as a financial centre could be strengthened by the fact that Hungary has become the region's largest capital-exporting economy by the end of the 1990s. Half of all Hungarian FDI has targeted the Southeast European region. In light of this export of capital, foreign interests at Budapest-based head offices of capital-exporting companies certainly strengthen the city's international financial positions. With a 25% share, the Hungarian financial sector is ranked second among Hungarian capital-exporting sectors. Capital export to Eastern and Central Europe is dominated by Slovakian, Romanian and Bulgarian bank acquisitions of OTP Bank. It is interesting to note in this connection that a few years back one of the main obstacles to Budapest's aspirations to become a financial centre was precisely that Hungary's banking system was fairly passive in the region.

However, there are still serious impediments to *Budapest's becoming an international financial centre*:

- International financial centres playing a key role in regional economies or the world economy as a whole are typically located in areas where the size of the host national economy is itself considerable. This is because such economies require extensive financial services. By contrast, as already noted, the size of both the domestic economy and that of the banking system is small in Hungary. Despite an expansion during the last few years, the financing role of the banking system is restricted and domestic banks remain small (although this disadvantage may be partly set off by the size of foreign 'mother banks').
- In Budapest, despite a suitable supply of highly qualified professionals, qualifications of the available workforce still fall short of international quality standards. In certain areas of finance (accounting, cost-management, marketing and sales) there are especially serious shortcomings. Consequently, financial services providers tend to employ foreign managers (Pelly 2001).
- Economic relations among countries of the region seem to have strengthened in recent years. At the same time, the intensity of these relations is weakened by parallel developments resulting from overlapping foreign ownership. In all countries of the region of Eastern and Central Europe, foreign banks established subsidiary banks and parallel networks controlled by managements of foreign 'mother banks' rather than regional financial centres proper.
- Organisational division of labour in the development of global financial markets lead to processes of decentralisation which run parallel to those of centralisation. Although in past years many global financial actors have moved their back

offices to Budapest, investment banks are still missing. The presence of these is regarded as crucial to the creation of financial centres.

In sum, the likelihood of creating a relatively independent regional financial centre in Hungary is low. There is little evidence of regionalisation in banking markets of Central Europe. This is because regional product standardisation has not taken place, while capital markets and infrastructure have developed in parallel in the countries concerned. Beyond conditions specific to financial systems in Eastern Europe, the evident concentration of financial markets throughout the world also suggests that the largest companies in the region will continue to rely heavily on Western European and overseas financial markets in the future as well. At the same time, these processes of concentration are partly set off by the fact that financial services providers' location of branches leads more and more frequently to the establishment of decentralised (geographically outsourced) organisational units in the pursuit of economies of scale. This highlights the importance of locating sub-centres in accordance with the prospective directions of the spatial expansion of growing markets. EU accession guarantees the stability of the market environment thereby rendering Budapest an attractive location for international back office services. Budapest may have (in fact, it already has) good resources for the creation of a regional service centre catering to consumer needs and enabling the concentration of financial services scattered throughout the region (Szabadföldi 2001). However, it is also notable that conditions in rival capitals are similar, except for Vienna where the labour market cannot compete with Hungarian wage levels.

The limited potential of the Hungarian economy weakens the attractiveness of the Hungarian capital as an international financial centre. For Budapest, proximity of Balkan markets and the prospects of dynamic economic development in Southeastern Europe may create real competitive advantages, namely by generating high demand for financial and other business services. All these developments may emphasise the strategic geographical position of Budapest thanks to geographical proximity and better 'local economic expertise'. There is no assurance, however, that regional development will lead to the creation of a new Eastern European financial centre. Modern informational technology, growing international openness of large financial centres, their already manifest and foreseeable concentration as well as the deepening embeddedness of key economic players in the Eastern European region are all factors that can override the advantages of geographical and cultural proximity. A structure is much more likely to strike root in which simpler, less resource-intensive services are locally available to customers while others are provided by traditional Western European or overseas financial centres. Even so, there is a genuine niche for creating a regional sub-centre and for providing certain special back office services (Bellon 1998; Pelly 2001). According to an alternative scenario, the capital would remain primarily a national financial centre – providing higher quality services than today – while extending its network of international relations (and strengthening its ties to Southeast Europe).

The state of the Budapest-centred financial system, including the domestic banking system, in the late 1990s rendered it unsuitable for playing a more significant regional role according to international standards. In the early 2000s,

Budapest's chances of occupying that role have somewhat improved due to the good performance of the private sector and its regional expansion. However, in my view, Budapest is not in a position to become an exclusive financial centre of the region. Nevertheless, similarly to its erstwhile role in the early twentieth century, it could serve as a financial sub-centre for certain distributive and intermediary international functions. This could enable actors of the international financial market to exploit certain services-related and geographical conditions of Budapest's favourable strategic location.

Territorial Levels of Bank Network Building

Paralleling the territorial concentration of banking and capital markets, there is an increase in the number of players in the financial sector creating intensifying competition in the ever-widening banking markets. With the enlargement of branch networks, deconcentration processes became more pronounced already during the period of transition. Against the general tendency observable in the EU, consolidation of the Hungarian market was not accompanied by a decrease in the number of branches. On the contrary, the branch network is still growing, although at a slower pace than before. Despite this broadening of the branch network, the concentration of retail banking is still higher than that of corporate banking and is further increased by the market share of the largest bank (Móré and Nagy 2004). The imperative of being present in local markets (resource accumulation, credit placement) and competition for retail markets motivate financial institutions to *build up networks outside the capital as well*. In the course of doing so, they seek to involve local resources. The primary means of market penetration is the broadening of the branch network. The role of foreign ownership capital is dominant in developing the organisational and territorial framework of branch networks. This holds true not only for the level of capital involvement and technology, but also the spatial scope of market building strategies (optimal size of the network in the case of larger retail banks would be around hundred units).

In the countryside, positive effects of foreign financial capital investments became visible with the widening of branch networks and the improving quality of services. Foreign-owned banks were responsible for the rapid widening of branch networks in the latter half of the 1990s. They played a decisive role in widening branch networks, improving branch accessibility and, as a result, in reducing territorial disparities. However, the building of bank networks proceeds strictly according to business motives and profit-oriented priorities. These are the considerations that determine network development at regional and local levels in the strategies of network-building banks. The current state of financial services accessibility is most importantly characterised by the concentration of such services in the capital and the almost total absence of banks in rural areas (i.e. villages). At present, 223 settlements (99% of which are towns) contain branches of commercial banks. To put it differently, bank networks are not present in villages accounting for 93% of all settlements. While nationwide, the ratio of population per bank branch improved by 18% between 1998 and 2004, this figure worsened by 5.3% in micro-regions which display the worst branch accessibility figures. The number of micro-

regions with access figures below the national average increased from 97 to 102. Domestic banks continue to resort to the so-called 'redlining strategy' not only in network development but also with regard to certain services segments. The majority of banks are still uninterested, for instance, in agricultural investments or in financing SMEs or regional development. At the same time, it is also true that some banks have lately sought to improve their positions in these markets as well. Meanwhile, in view of the spatial location of these sectors, access enjoyed by countryside regions to banking services has worsened overall. As noted above, in the transitional period, development of banking networks significantly alleviated territorial differences. Today, however, the slowing down of network deconcentration and the closing down of certain branches (financial exclusion) as well as poor access to banking services at some territorial and settlement levels have increased territorial inequalities once again.

Changes occurring in the organisational and administrative system of branch networks are also space sensitive. New bank strategies in the early 2000s began to emphasise *organisational centralisation*, particularly that of certain business divisions. This has clearly strengthened Budapest's role yet again. In addition, an increasing number of financial institutions sought to rationalise what had formerly been a scattered organisational and administrative structure. They *created regional head offices*, which were to replace county centres, in accordance with the general trend of regionalisation. They also began to decentralise certain monitoring functions. In 2002, 6 of the 13 banks with nationwide branch networks had at least a three-level organisational structure. The majority of foreign-owned banks adopted this structure in setting up their branch networks. In other words, they imported successful practices from abroad in reshaping domestic banks.

Banks with larger branch networks are more likely to build a more decentralised organisation, whereas banks operating smaller networks and employing a smaller workforce are more prone to centralise. However, the establishment of regionally deconcentrated organisational units does not entail the weakening of decisional competencies of the capital head office. Strategic decisions and those concerning future development are still taken at *bank headquarters* seated in the capital or in the headquarters of foreign 'mother banks' (McKillop and Hutchinson 1991). No doubt, bank decentralisation has rational limits posed by economies of scale. Nevertheless, Western examples show that even within centralised banking structures it is possible to decentralise certain financial services at the regional level without undermining the role of the national bank centre. This can contribute to the more effective operation of the entire network. Currently, however, organisational decentralisation frequently remains formal in Hungary: decision competencies outside the centre are limited; banking products are centrally developed; the banking sector fails to offer services and products specifically tailored to local needs; and identical conditions apply throughout the country. Diverse circumstances and levels of development in different regions could, however, justify the offer of certain customised services.

Regional centres and sub-centres constitute the next level of banking networks. As the first step towards decentralisation, banks establish regional control offices

Table 12.3 Potential regional bank and financial centres in 2001 and 2002

Towns	Number of banks	Number of seats of mutual savings banks	Number of non-bank financial inter-mediaries	Number of bank branches	Number of financial employees	Frequency of regional bank centre role
	2002	2002	2002	2001	2002	
Debrecen	13	0	22	25	1 632	4
Győr	13	1	36	27	2 073	5
Miskolc	13	0	40	24	2 108	5
Pécs	13	0	35	23	1 610	5
Szeged	13	3	37	25	1 573	4
Hungary	28	189	n.a	1168	52748	-

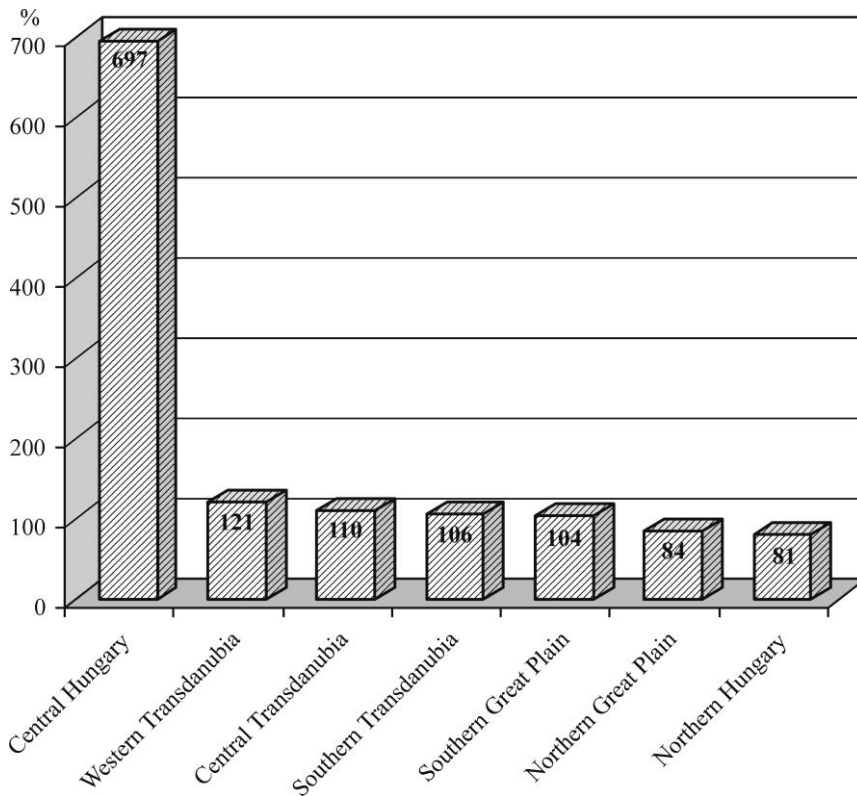
Source: Wágner (2004), on the basis of yearbooks of the Hungarian Financial Sector and Stock Exchange and the Regional Statistics Yearbook. Note: number of financial employees given by county. Regional bank centre role: territorial centres of banks with regional organisational structures in the given settlement.

and endow local branches with varying control functions. Regional centres occupy a middle ground between the national centre and local branches. They supervise the units of the branch network in their territory. Whether a certain location serves as a financial centre can be defined by a combination of several qualitative and quantitative features. These include number of bank centres and branches, the position occupied in the bank's organisational hierarchy, presence of other financial institutions, the number and ratio of employees in the financial sector and the direction of their change (Wágner 2004). It can be observed that the financial role of five major towns (Pécs, Győr, Szeged, Debrecen, Miskolc) has strengthened. These towns started to take over certain regional (sub-)central functions.

It is also worth noting the agglomeration of providers of financial services and the opening of several regional agencies (Table 12.3). These cannot be regarded, however, as genuine regional centres. Full-fledged regional centres are defined in the pertaining literature as locally established financial institutions in a position to generate independent information or, alternatively, as centres representing foreign institutions (Tickell 1996). In light of the heavily centralised organisational and operational structure of banks in Hungary, it would be premature to refer to existing regional representations as genuine financial centres. Their output of original information is restricted, information flows mainly towards the centre and only to a limited extent towards local units. Despite their having been entrusted with certain decision-making rights, competencies of such regional units remain narrow. Amounts at their disposal are maximised.

In regions (or to use international terminology, in regional sub-centres) themselves, enlarging the institutional basis of financial mediation and services may be prompted, first, by access to (and in many cases monopoly of) labour and informational resources in so-called quasi-regional centres, and second, by

Figure 12.2 Per capita financial services GDP and average outside the capital (%)



Source: Edited by the author on the basis of estimates by the Hungarian Central Statistical Office, 1998.

intensifying competition among banks for shares of local markets. The emergence of such competition is in many cases not dependent on a given region's economic performance. Overall, chances of establishing locally-based banks in Hungary, the presence of which is generally regarded as necessary for qualifying as a regional financial centre, are low. The concentration of capital – a prerequisite for creating and efficiently operating independent banks – is not favoured by current conditions, especially not in less developed regions.

Relevant surveys on economic activity and opportunities for capital accumulation in regions outside the capital are based on the analysis of entrepreneurial activity, profitability figures of firms and the territorial distribution of personal income tax. Budapest claimed a higher share of all factors crucial to economic growth – such as local capital accumulation, FDI and the development of financial services – than the relative size of its population (Figure 12.2). In addition to Budapest, capital accumulation benefits primarily thriving towns of central and Western regions

followed by regional centres and dynamically developing county seats. At the same time, almost 80% of villages and underdeveloped micro-regions continue to lack mobile capital. The low level of capital concentration in the countryside – a good indicator of economic performance in these regions – is tied up with the lack of locally founded financial institutions (Nemes Nagy 1995). The majority of cooperatives cannot meet the EUR 1 million capital stock limit necessary for the establishment of mutual savings banks. The capital stock limit of EUR 8 million required for the establishment of banks poses an even more serious obstacle to launching financial institutions in the countryside. Therefore, changes in recent years highlight the danger of a new kind of dependence between the capital and the regions in terms of financial transfers. The *filtering role* of Budapest is due *primarily* to its key position in controlling information flow. The capital-centred banking system filters the most valuable financial services (corporate banking, portfolio and risk management, private banking) and relegates more traditional and less profitable services to the periphery.

Surveys carried out in the first half of the 1990s outlined several possible directions of how to develop the Hungarian banking system, ease its excessive centralisation and promote decentralisation at least to some extent. Suggestions included the enlargement of branch networks of commercial banks in the countryside, integration of mutual savings ‘cooperatives’, establishment of municipal financial institutions and the creation of a network of regional development banks (Illés 1993). In addition to the already mentioned lack of resources necessary to meet capital stock requirements, however, keen competition on an already saturated domestic market also hinders the entry of new actors with independent branch networks in the group of the currently operating 13 banks. On the contrary, what we are likely to see in the future is a growing concentration of the banking sector, a slow decrease in the number of independent financial institutions, and an increased emphasis on exploiting the potential inherent in the integration of the savings cooperative sector.

Since the bulk of the banking network is located in large and medium-sized towns, the impact of the commercial banking network at the level of small towns and villages is weak (while 33% of money circulation took place in small villages without bank branches in 2000). Strengthening the market positions of mutual savings banks with extensive networks in the countryside could lay the groundwork for spreading financial services to lower settlement levels (no financial services are available at almost half of all settlements, i.e. in the residential environment of nearly 15% of the population). Approximately 2.5-3 million people live in villages where the only financial institution available is a mutual savings ‘cooperative’. The current decentralisation of such mutual savings banks can be regarded as a significant competitive advantage at local banking markets. At the same time, conditions for the efficient and professional functioning of these excessively scattered savings bank networks can only be *ensured by integrating savings ‘cooperatives’* under the auspices of an ‘umbrella’ bank. The optimal operative size would enable the efficient functioning of 70-100 mutual savings ‘cooperatives’ (Kiss 2000).

Given the total assets of mutual savings banks, their actual integration would produce the fifth largest bank in Hungary. At present, the regional performance of such mutual savings ‘cooperatives’ is best in the regions of Southern Transdanubia and Southern Great Plain. Here they can rely on a strong agricultural basis, although they have also acquired solid positions on urban markets as well. In the capital and the region of Central Hungary, the performance of mutual savings ‘cooperatives’ is weak since this market is dominated by commercial banks. In the long run, it would be advisable to alleviate the still existing polarisation of the Hungarian banking system by encouraging cooperation between commercial banks with smaller – spatially more concentrated – networks, on the one hand, and mutual savings ‘cooperatives’ with more extensive networks in villages and small towns, on the other. Currently, the whole of the Hungarian banking market could not be covered without the sector of mutual savings banks. This is because it is unrealistic to expect commercial banks to set up branches even in smaller towns. At the same time, expansion of mutual savings ‘cooperatives’ in towns may continue (Gál 2003).

Conclusion

Having examined almost two decades of the development of the Hungarian two-tier banking system, we can observe that the financial services sector accurately reflected territorial developments induced by processes of economic transition. Having been the first to introduce a two-tier bank system, Hungary gained considerable competitive advantages in the region. Due to a massive demand for capital in the course of the rapid modernisation ushered in by the general economic crisis, the development of the banking sector was entirely determined by market processes – and primarily by decisions of foreign owners – already in the early phase of the political-economic transition.

The banking sector is characterised primarily by strong organisational centralisation and territorial polarisation, the latter being crucially reflected in the strong Budapest-centredness of the entire sector. Following a decade of extensive development (territorial extension) of the banking network, organisational centralisation appears to become more dominant in the early 2000s. This is, of course, no Hungarian peculiarity. It is clearly normal for national financial centres to be set up in cities with the largest population and the strongest economic activity. The extent to which this sector is centred on Budapest, however, cannot be fully explained either by reference to the small size of the country, nor by the imperative of having to adjust to international financial structures (i.e. having to optimise the size of financial centres). Historical circumstances rooted in the crisis of the 1980s are at least as much dominant. The heavily centralised (Budapest-centred) structure was created by decisions of a ‘reformist’ elite that was itself based in Budapest. These decisions gave priority to an optimal concentration of resources. Nor did the ever-deepening economic crisis – more severely affecting the undercapitalised countryside economy – favour the creation of decentralised structures.

For the most part, structures of the banking sector – which were also to inform the institutional and legal framework – had already been set up at the point when

they were taken over by foreign investors. The mid-1990s saw the extensive enlargement of the branch network in the countryside. Banks opting for this strategy were aiming at involving resources outside the capital and were seeking to improve their positions on the domestic market. This extension of networks restored territorial balance to some extent. Parallel to this, however, structural challenges (competition by non-bank financial intermediaries, spread of universal banking, strengthening competition, concentration of banks, introduction of IT technologies, increasing operational cost efficiency) facing the Hungarian banking system now integrated into developed financial markets resulted in a growing organisational centralisation of banks and a shrinking workforce from the early 2000s. The effects of the latter processes amplified territorial inequalities once again. Organisational centralisation, rationalisation of banking branch networks (financial exclusion, i.e. withdrawal from some less profitable regions, closing down of branches) and the organisational and territorial concentration of certain banking activities further widened the gap between Budapest and the countryside. These processes have not only significantly contributed to territorial disparities, but have also increased the traditional centralisation of *crediting practices in the banking sector*. While the closing down of bank branches and concomitant layoffs mostly affected units at the lowest levels of the settlement hierarchy and socially segregated residential areas, organisational centralisation has had the same effects on financial institutions (territorial head offices) of major towns outside the capital. The peculiarity of these negative developments – in contrast to those in Western Europe – is that they had begun before branch networks of a reasonable size could be completed. Strategic investment decisions in the sector significantly exacerbated territorial disparities after the end of the 1990s. In view of the Hungarian regions' limited potential to accumulate capital through the activities of local enterprises, the launching of new financial institutions in the countryside or the creation of genuine regional financial centres outside the capital are not viable options. Given a sufficient level of capitalisation, the locally embedded mutual savings cooperative sector combining local and market perspectives can assume a modernising role similar to the German model. This is partly because without this sector it would be impossible to cover the entire Hungarian market today. Competition for banking markets, however, also leads commercial banks to exploit market opportunities outside the capital. The development of branch networks – the pace of which has slowed in comparison to former times – continues both in the retail market and local markets. On these markets, the significance of local expertise is increased in new strategic areas (e.g. SMEs, regional project financing).

NOTES

- ¹ This compound indicator is generated using the following formula: population/number of bank branches + number of branches of mutual savings banks + number of ATMs.
- ² The term 'dual economy' can stand for characteristics caused by *organisational and structural differences among economic actors (large and small enterprises)*. In Hungary's case, these are embodied in differences between foreign-owned large enterprises, on the

one hand, and Hungarian SMEs, on the other. One can also speak, however, of a *dual regional economy*. This term points to a developmental gap between dynamic centre(s) and peripheries.

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Chapter 13

Hungary in the European Transport Space

Ferenc Erdősi

Introduction

A country's position in the European transport space is defined primarily by a combination of its *geographical characteristics* (its location, relief topography and hydrogeological features pertinent to transport relations), *external factors* (including changes in Europe's economic/transport relations with other continents, its macro-regional orientation, and economic and cultural development, i.e. changes of focal points within the European economic space which are themselves influenced by integrational policies and superpower politics), as well as *internal factors* (intensity and efficiency of the development of international transport relations as influenced by political systems, foreign policy or possibly an attitude of isolationism that strives to keep international relations at a minimum) (Erdősi 2000a). The relative weight of these factors changes with time.

The development and application of transport and communication technologies can decrease the importance of the peripheral geographical location of disadvantaged countries by rapidly and significantly improving their regional accessibility. Moreover, it can also help them to *break out* from the economic periphery. This tendency is best observable in *Northern Europe*, especially in *Finland*. In winter, access to this country is either impossible or very expensive by traditional means of transport. Nevertheless, relative to the size of the population Finland has an excellent telecommunication infrastructure and intensive air transport capacity. This country has strived hard to set off the effects of its peripheral situation and has been very successful in doing so.

Even unfavourable features of a country's relief topography need not in themselves decisively influence its international accessibility. Such hindrances can be overcome provided that they are intersected by the main circulation lines of transit traffic among Europe's macro-regions. Such circulation lines due to their high-intensity seek the shortest possible connections. Thus for instance the natural obstacle posed by the Alps, which are higher and bulkier, are more difficult and more costly to overcome than the Pyrenees. Nonetheless, the 'turntable role' of this

mountain region between Northern, Central and Southern Europe, on the one hand, and between Western and Eastern Europe, on the other, has been on the increase ever since the construction of train lines in the nineteenth century. The Alpine regions of Switzerland, Austria, and even the French and Italian Alps have become much more valuable from a transport point of view. (While from an environmental perspective the transit corridors, especially the areas crossed by motorways, have recently become less valuable habitats due to serious environmental pollution.) In other words, the revaluation of Switzerland's position in the European transport space is mainly due to external factors. These include the attraction of the Suez Canal (the gateway to intercontinental cargo shipping to the Middle East and Central Asia as well as Southern and Eastern Asia), and Italy's proximity – a country which is itself on the way to becoming a quasi-economic and touristic superpower in Europe (Erdősi 2000b).

The factors shaping Hungary's transport position in the European transport space are the following:

- Hungary's position in the Carpathian Basin: This, of course, remains an important invariant. This geographical feature has both positive (transport junction) and negative (distance from the sea) effects.
- Connectivity to European transport: Hungary's spatial relationship to Europe's economic and cultural centres has proved to be a more important factor than invariant topographical characteristics and geographical location.
- Sectoral policies of past governments seeking to improve Hungary's position within the European transport space: These have enjoyed varying success and had different effects in the last few centuries (Erdősi 1996a, 2000a).
- Integration of national transport into the European space: Until very recently, this has mainly taken place through the extension of the spheres of influence of various superpowers over Hungary. The overall orientation of such integrations has therefore undergone significant and frequent changes.

Eastern Orientation and Corresponding Transport Connections

As a result of Europe's political divisions, the antagonism of the two defence blocks and the reduction of (inavoidable) economic relations between economic integrations (EEC/EFTA and the COMECON) to a minimum, *Hungary's transport relations to neighbouring countries have assumed a lopsided character*. From the late 1940s, the Iron Curtain permitted the crossing of borders only at a handful of strictly controlled points.

Two-thirds (in some years even three-quarters) of Hungary's foreign trade – the extremely shipping-intensive nature of which was due to extensive industrialisation and large volumes of agricultural exports – were conducted with the Soviet Union and other socialist countries. Most of the freight was shipped by train. Certain kinds of raw materials (e.g. iron ore, coke and raw iron) were transported on the Danube, and only a small proportion was moved as road freight. To Soviet destinations, however, rail shipping, the major form of cargo forwarding, was made possible only after the construction of a transloading zone of special size (which was longer than

20kms and was equipped all the way to Kisvárda with Soviet-type wide-gage railtracks as well) due to the difference in gage. (This construction occupying an area of more than 80km² and employing 6 to 7 thousand people at a time proved to be an effective regional development factor in Szabolcs-Szatmár-Bereg county.)

In accordance with the general Eastern orientation, the overwhelming majority of investments into the development of international transport targeted transport lines with Soviet destinations in the 1950s, but even in the 1960s and 1970s. (This included the addition of a second set of tracks to and the electrification of the Budapest–Szolnok–Debrecen/Miskolc–Nyíregyháza–Záhony main rail-lines, the extension of the railway stations concerned, but also the construction of road no. 411 between Vásárosnamény–Beregsurány and the border, etc. The latter road was also used by the armoured divisions of the Soviet army during the country's invasion in November 1956.) The freight port of Sztálinváros (later Dunaújváros) was also built in order to support the crucial economic relations with the Soviet Union. The pipelines and transmission lines for gas and electricity constructed from the 1960s onwards served as the 'umbilical cord' in energetics. (The lopsided pattern of energy imports contributed importantly to Hungary's dependency on the Soviet Union.)

Transport and shipping relations with other socialist countries played only a secondary role. For this reason, no substantial improvements were made to the Miskolc–Hidasnémeti main line leading via Slovakia to Poland, nor to rail-lines with Romanian and even less to those with Serbian destinations. (The high-priority construction of the Budapest–Miskolc tracks was made necessary by the predominantly domestic shipping demands of the Borsod industrial area.)

In addition to direct (export and import) traffic with Eastern orientation, international *transit transport* gathered momentum from the 1960s and 1970s as well. Apart from the traditional but not particularly significant East-West direction, three additional transit corridors became increasingly more important:

- the Southeastern-Northwestern corridor serving transports between Southeastern Europe and mainly German-speaking Western and Central European areas.

The huge volumes of vegetable and fruit exported (increasingly in lorries despite the bad condition of the roads) from Bulgaria, and to a lesser extent, from Romania to Austria, East Germany, West Germany and Czechoslovakia importantly contributed to this development. Greek and Turkish trade continued to play a marginal role even in the 1980s since Yugoslavia was used as the main transit route for these destinations.

- Trade between the *Soviet Union* and *Italy* was chiefly responsible for *Southeastern-Northwestern* transit.

Italy, with the strongest Communist party among Western countries, became one of the most important trade partners of the Soviet Union in the late 1970s and early 1980s. In addition to higher-quality consumer goods, the Soviet Union purchased machinery (e.g. for the Lada works) in exchange for raw materials and energy resources. In order to improve transit shipping in a *Southeastern-Northwestern* direction (which was partly routed through Yugoslavia), Moscow banks financed the electrification of the Kiskunfélegyháza–Kiskunhalas rail-tracks (Erdősi 1996b).

- Demand for shipping in a North-South direction towards (Scandinavia)–East Germany/Poland–Czechoslovakia–the Adriatic and the Mediterranean was less significant. Nevertheless, planning of the trans-European motorway system began in response to a Hungarian and Polish initiative. Traffic in the same direction would have been served by the trans-European railway system the planning of which was later abandoned.

New Orientation and the Shift in Macro-regional Focal Points at the Time of System Change (the 1990s)

Political and economic system change in the larger, Eastern part of Europe beginning in 1989 and 1990 has completely transformed the trade relations of former socialist countries. Trade and manufacturing co-operation with the Soviet Union and among these countries themselves ceased to be dominant and was ultimately reduced to a moderate share (15–30%), while economic relations with Western countries have become decisively important. This includes not only developed Western democracies in Europe, but also Northern America and the Far East. These general characteristics hold especially true for Hungary:

- loss of the majority of Eastern markets, and partly for this reason, the transformation of production structures (favouring less shipping-intensive products) has significantly decreased the overall volumes of goods shipped,
- not only have the volumes of exports/imports shipped gone back, the main directions of forwarding have also changed with a much higher share of Western, South-Western and North-Western directions. Lease-work, which spread very rapidly, and other co-operative ventures in manufacturing (often of a just-in-time type) called for flexible shipping of smaller items. Consequently, road shipping has gained further ground at the expense of rail freight and hence construction of a motorway connection to the West became a pressing issue.
- Connecting infrastructure of exceptional dimensions (tunnels, bridges) has been constructed between Europe's topographical/geographical peripheries and its core areas (e.g. the Channel Tunnel, the bridge-cum-tunnel complex over the Great Belt and the Öresund Straits). Coupled with changes in the location of political, economic and administrative centres, this has led to a shift of Europe's economic focal point further towards the North (making the 'Blue Banana' paler than before). As a result, a super-intensity corridor has been emerging on the German-Polish plains in a Southwestern/Western-Eastern direction (from the Iberic Peninsula and the United Kingdom over France and the Benelux states all the way to Germany, Poland, Belarus and Russia). Several factors and processes have influenced the emergence of this super-corridor:
- German reunification created an unchallenged economic superpower in Europe which, on the basis of comparative advantages, has developed much closer economic relations with Russia and ex-Soviet republics. This requires shipping on an unprecedented scale (raw materials from Russia and ex-Soviet republics, oil, gas and other mass products in exchange for valuable German industrial machinery and manufacturing goods). This traffic is further increased by

growing shipping demands generated by *Spain's* foreign trade which has grown faster than the EU-average. Also, the *Channel Tunnel* connecting *Great Britain* and the Continent is a continuous and reliable transport option the use of which has also contributed to the new *traffic surplus* (Erdősi 1998).

- This super-axis also comprises Berlin, Germany's old-new capital. Urban development in Berlin – at a unique scale in Europe – serves not only the creation of a governmental centre and the establishment of a macro-regional focal point of world trade (after the building of the headquarters of multinational companies) worthy of a superpower with a population of 80 million people. It is also aimed at re-industrialisation in the suburbs and areas of agglomeration with a high profile presence of leading technologies.
- Northern European countries (with the exception of Norway) have joined the European Union. As a result, their growth has accelerated and their economic relations with core areas of the European Union (i.e. in a geographical sense, Western Europe and the Western parts of Central Europe) have become stronger.
- The development of offshore oil and gas drilling on the North Sea has shifted the focus of the exploitation of energy resources in a North-Eastern direction.
- As a consequence of the disintegration of the Soviet Union and the disappearance of political pressure, traffic on Southwestern-Northeastern transit lines linking Italy with the Ukraine and Russia (as well as other ex-Soviet republics) has been reduced to a fraction of former volumes.
- Rail transit traffic from Northern France, Switzerland and the German and Austrian Länder of the Upper Danube to the Ukraine via Hungary (Záhony) has fallen considerably. A part of this traffic was re-routed via the much cheaper Slovakian railways.

The upshot of this is that Hungary finds itself farther removed from the main corridors of European traffic circulation. This applies not only to the interdependent super-corridor, which has been taking shape North of the Carpathian Basin, but also to traditional international corridors in Western Europe (e.g. the corridor connecting the Rhine–Rhône valleys, Rotterdam and Marseille, or the Hamburg–Frankfurt–Zürich–Milan corridor). This situation is hardly compensated for by steadily increasing traffic from Southeastern Europe to Western Central Europe and Western Europe via Hungary.

Hungary's Position in the Restructured Pan-European Transport Space of the Planned Corridor Network

Apart from the effects of these processes and tendencies, the origins of which lie in the past, no further significant changes are likely to shape the macro-structure of European transport space in the near future. This can be attributed to the following reasons:

- The construction of further connecting infrastructure now in the planning stage (e.g. bridges over Fehmarn Belt, the Strait of Messina and the Strait of Gibraltar, or the construction of a second Channel Tunnel after the exhaustion of the capacities of the first one, a new Bosphorus or Dardanelles bridge, etc.) can only

increase the capacities of already existing corridors, but will not establish new traffic directions of European significance.

- Similarly, until 2020 the construction of the trans-European (TEN), pan-European (PEN) and TINA corridors cannot be expected to trigger either further ‘landslide’ shifts in focal points nor concomitant fundamental structural changes in the macro-scale network of traffic circulation. The development of the trans-European network, now extended to Eastern Europe as well, aimed at strengthening cohesion within Europe has been given top priority in transport policies of the European Union. Despite, however, the declarations of the original conception, the majority of the corridors (or at least their individual stretches and elements) overlap with already existing rail-lines, main roads and waterways. There are few completely new directions circulating long-distance or international traffic. This is why the most important task in connection with the corridor network planned is to convert, with only minor correction of previously established routes, the existing transport lines into high performance routes (rail-lines with traditional technology but allowing over 160km/hr speed and motorways/clearways). In addition, it will be necessary to construct high-speed railways (220–350km/hr) in a few favoured main directions, principally between large cities and agglomerations, on new intensive routes.

The deadline for the TEN, PEN and TINA programmes is 2007–2010. However, only 20–22%, slightly varying according to transport sector concerned, of these programmes have been realised (a calculation based on routes constructed between 1994 to 2000). Ex-Soviet republics lag behind most gravely. In these countries, practically no part of the PEN programme has reached completion (e.g. converting the inlet stretches of main roads to large towns into multi-lane clearways).

Delays in the construction of the TEN corridor network as planned in pertaining documents of the European Union and pan-European organisations (e.g. the Council of Transport Ministers) can be attributed to the following reasons.

- Insufficient funding for investments allotted by the EU and national budgets.
- Despite previous expectations of transport policy-makers of the European Union, the private sector has shown little interest, mainly because of the slow rate of return of such investments (20 to 40 years).
- Rail technologies have been rapidly changing. Systems regarded as optimal in the beginning of the 1990s are now replaced by alternative, in many respects more advantageous, solutions. Thus original plans have been abandoned or suspended. Further implementation will have to await decisions concerning the technological solutions to be used (Erdősi 2000b).

As a result, the realisation of several principal infrastructural plans has been suspended (dropped as a medium-term plan) or altered in France and Germany, both playing a key role in the construction of the TEN network on account of their size and position, as well as in other countries. Due to these developments, the emergence of a pan-European, interconnected high-speed network has become completely uncertain and so has Hungary’s access to this network.

On the basis of observable developments and plans presently considered, we can say that today (i.e. in 2004) Hungary’s position in the international transport space

and its transport relations to surrounding countries and regions is influenced by the following circumstances and factors:

- political instability may become permanent in the area of ex-Yugoslavia. Various atrocities and armed conflicts can pose a risk to transit traffic (particularly road traffic). This risk was already taken into account by the pan-European conference which took place on Crete in 1994. The IVth PEN corridor linking the East of Germany with Southeastern Europe was routed to circumvent Yugoslavia from the East. Only after the conclusion of the civil war among peoples of ex-Yugoslavian republics did the Helsinki Conference add to the pan-European networks the Xth corridor linking Austria with the region of the Aegean Sea via the ex-Yugoslavian republics (i.e. Slovenia, Croatia and Serbia). Most of this corridor already consists of motorways/clearways, even though international traffic East of Croatia is insignificant. As long as conditions for transiting do not improve in this area, more intense traffic can be expected on the IVth corridor (M15, M1 and M5 motorways) leading through Hungary.
- The use of the bilateral international waterway of the Danube as the VIIth PEN corridor will not reach the level (not even after the reconstruction of bridges in Serbia) intended by EU planners for this trans-Continental waterway. This is because volumes will continue to be small due to incipient economic transformation in this region. Only radical measures (e.g. a dramatic increase of the costs of transit and those of long-distance domestic lorry transport) could ensure acceptable levels of circulation for waterways by re-directing at least some of the traffic to these routes (and even in this case available capacities would not be exhausted). Such measures, however, are hardly feasible despite statements to this effect by EU transport policy-makers.
- As regards trans-Alpine transit lines linking the German-speaking part of Europe with Latin countries, it seems that Switzerland seeks to decrease pollution caused by motorways through curbing lorry traffic and the re-loading of road freight onto railways. In response to measures restricting lorry traffic or raising the costs of transit, heavy lorries now reach Italy through Austria and France even at the cost of a detour. Meanwhile, Austrian transport policies are also increasingly dominated by environmental considerations. This is indicated by the expansion of the capacities of Austrian transit railways in order to accommodate container, hugepack and RoLa traffic. Within this framework, the reconstruction of the Vienna–Triest main line, itself looking back on a history of more than 150 years, was launched. The most critical point of this route is the tunnel through the Semmering Pass located at high altitude and therefore only accessible on a serpentine path by light trains. It is planned that long tunnels will be substituted for these slow and outdated serpentine stretches. This re-routed line would also be suitable for heavier trains. But after Green movements prevented the continuation of the Semmering tunnel, it has been considered that *Western Transdanubian railways* (also including the Zalalövő–Bajánsenye–Muraszombat railways presently under construction) *would be rented* to ensure long-distance rail freight between Vienna and Triest.

Although this seems hardly realistic today, it is not impossible that by the middle of the 21st century faster economic growth will reduce the gap between Eastern and Western European economies. Should that really take place, once adequately constructed, corridors in the ex-Soviet republics and their dynamic economic environments could become a source of much greater attraction for the Carpathian Basin and Hungary in particular.

The IXth corridor links Finland and the Baltic region to the Black Sea (and thus indirectly to the Mediterranean as well) via Russia, Belarus, the Ukraine and (Southeast Europe). The Black Sea is open and freely navigable in winter as well. This corridor has particularly great potential to become a much-used, high-intensity ‘magistrale’ (connecting such large towns as Helsinki, St. Petersburg, Minsk, Kiev, Chisinau, Odessa, Bucharest and Plovdiv).

Economic growth in Central Asia could generate additional incentives from an Eastern direction. So could the construction of a landbridge – the so-called ‘New Silk Road’ – for rail and road traffic to the Far East enabling much faster shipping than the detour on sea. (Kazakhstan and China connected their rail networks at Druzhba already in 1997. The difference of railroad track gage was overcome by means of a gage-conversion device. Thus regular railroad traffic was launched between Central Asia and the ports of the Yellow Sea.)

Asia’s role in the world economy has been on the increase (China in particular is to be expected to grow further). Therefore, in due time Hungary’s transport relations towards the East are likely to become more valuable once again, even if this will take place in a somewhat altered framework. There is a possibility that the land/sea container forwarding chain encompassing Central Asia, the Caspian Sea, the Transcaucasian region, the Black Sea and Romania will continue through Hungary to reach Alpine countries (Erdösi 1999). In the Záhony–Moscow–Nahodka (located on the shore of the Pacific Ocean) direction, containers are already being forwarded by direct trains.

The most serious uncertainty concerns the development of traffic in a Southerly direction due to the political instability of the Yugoslavian region. This is unfortunate because (quite apart from bilateral relations) in its traffic with the Mediterranean, the Middle East and Asia, Hungary’s foreign trade has always relied for access to the Aegean Sea (Thessaloniki) and – via the connecting sea route – to the Suez Canal on the shortest route leading through the Morava and Vardar valleys. It is also true, however, that this line (in comparison to Western, North-Western and South-Western directions) has never enjoyed more than a tertiary significance.

‘To Sea, Hungarians!’ – But Where?

Orientation towards one or the other sea and preference for certain seaports are not insignificant questions for the connectivity of Hungary’s economy to world markets. After a lengthy period of hesitation, Hungarian transport policy opted for the Adriatic (Rijeka) as against the Black Sea (Constanța) as the nearest preferred maritime connection. Since then, however, (even if only temporarily) the idea of using Constanța instead recurred periodically. More recent conceptions also include the

Croatian port of Ploče at the Southern end of the trans-Bosnian V/c. corridor as a third potential candidate. This port is only a little bit farther away from Budapest than the ports of Kvarnero and Trieste and also enables faster access to the Mediterranean. Meanwhile, Ploče can hardly expect a significant increase of Hungarian traffic since the construction of this corridor has been fraught with uncertainty (after having been selected for this purpose in 1997, practically nothing has been done to proceed with its construction). In addition, the infrastructure and services provided in this port (just as those of another potential candidate, namely Bar in Montenegro) lag far behind those offered by Trieste, Koper, and Rijeka has been developed in co-operation by Croatia and Hungary.

Hungary's overseas foreign trade (including not only American but also Asian freight forwarding) still tends to prefer North Sea ports (Hamburg, Bremen, Amsterdam, Rotterdam, Antwerp, etc.). All of these ports are far superior to their Mediterranean counterparts offering modern infra- and superstructure and high-quality, reliable and cargo-friendly logistic services. Although North Sea ports are more distant, they provide the widest range of maritime destinations, frequent services, the greatest variety of ship types and a co-ordinated forwarding chain. Consequently, the most favourable economic choice remains the North Sea as against three other seas (the Adriatic, the Aegean and the Black Sea) which are all physically closer to Hungary (and to important Asian markets as well).

In order to change this situation (that defies the logic of geography¹) and to cut short, for instance, the massive European detour (via Gibraltar) which the bilateral exchange of goods is forced to take between Hungary and the Far East (the world's third economic superpower), it would be essential to develop the services of the Adriatic sea ports to a level close to that of North Sea ports. The former are only a few hundred kilometers away from Hungary, but without the required developments they are unable to compete successfully. This improvement, however, is hardly to be expected in the medium run. Even the long term (10 to 20 years) can only bring a slight reduction of the dominance of Northern ports. Since the transport value of ports strongly correlates with their size (range of destinations and services, variety of loading and, even more importantly, logistic services), neither Adriatic nor Aegean, or even Mediterranean ports (e.g. Genoa, Livorno), will be able to match superports in Western Europe.

Urban Gateway Function – the ‘Bridging’ Bole

More and more experts have come to accept the view that Budapest, owing to its geographical location and history, is well positioned to become an urban gateway and play a bridging role in the international network of relations and communication dominated by large cities (or at least to become a focal point for promoting cohesion in the Central European region which has been fragmented since the emergence of smaller states in 1991-2, cf. Molnár 2000). Development of these functional roles in an expanding economic space must also be supported by regional policies of the European Union.

It is in Budapest's interest that the meridional corridor intersecting the two trans-European main North-West corridors linking Northern Europe with the Adriatic Sea should pass through the Hungarian capital, rather than be drawn more towards the West or East (Figure 13.1). No doubt central regions of the country would profit directly from this and even eastern regions could benefit. From a more differentiated perspective of territorial interests, it is a question, however, to what extent Budapest and its wider area should be given priority over other corridors – e.g. over Western Transdanubian regions. It is worth considering how far the capital's interest (i.e. ensuring an adequate position for it in the competition of large cities in Eastern Europe) overlaps with the country's interest (including countryside regions) as a whole. Western Transdanubia, for instance, has successfully sought to become more independent from Budapest and simultaneously to develop closer relations with neighboring Austrian regions (close economic ties with Burgenland and other Austrian Laender, growing reliance on Schwechat international airport at the expense of Budapest, etc). This aspiration conforms to policies of the European Union favouring inter-regional relationships. Moreover, the planned transport network of the EU includes a TINA corridor leading through Western Transdanubia from North to South.

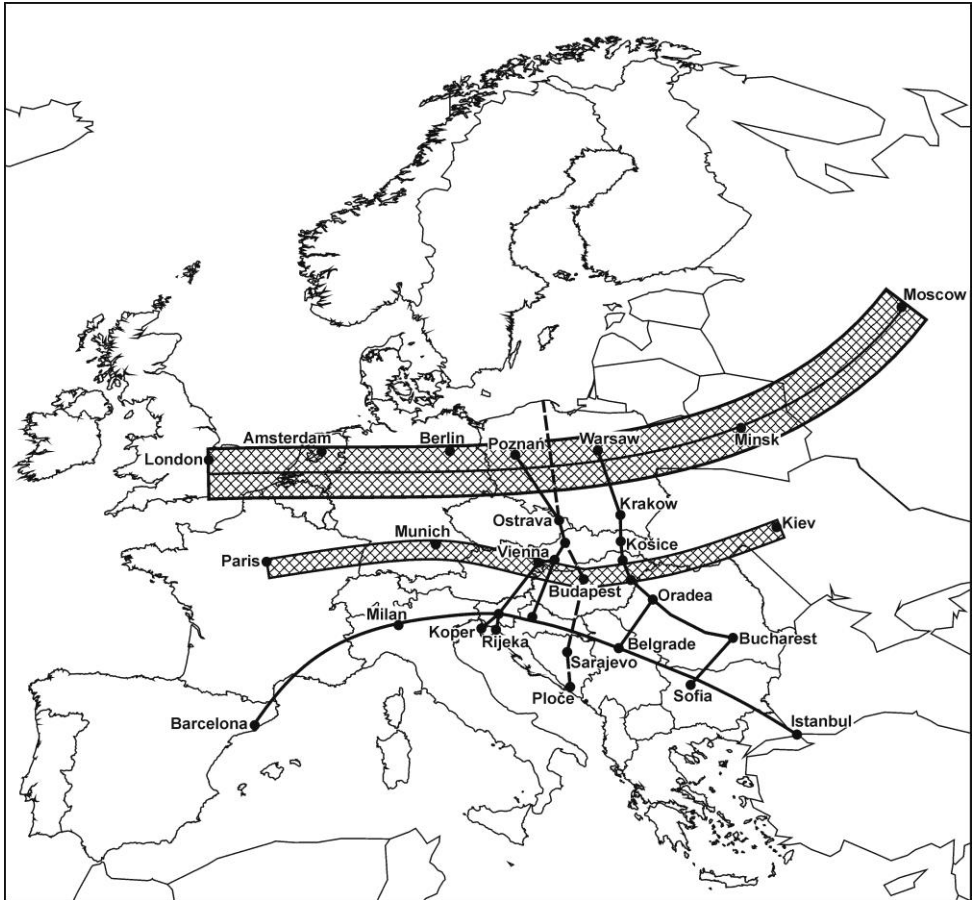
Clearly, the whole country stands to gain from Budapest's development. At the same time, it would be less fortunate, also as far as the prospects of Hungary's peripheral regions are concerned, if the development of a European 'magistrale' continued to remain centred on the capital. The construction of several meridional corridors could result in a more balanced situation.

Molnár (2000) has argued that Budapest's gateway function and bridging role both require the conversion of Ferihegy airport into a hub of international air traffic and its development as an intermodal traffic junction.

Planning for the future needs, however, to take into account that these two different roles present different demands with regard to the airport's desirable network of connections:

- As regards the gateway function, to cater for passengers arriving from (or travelling to) distant destinations development of the airport's urban network would mainly be necessary (allowing travelling business persons with local appointments to arrive and return within the space of the same day).
- By contrast, the bridging function (i.e. a mediating role) calls for the development of adequate conditions for long-distance flights, the integration of regional flight services and ground traffic, improved network infrastructure and co-ordinated operations. Intercontinental traffic at Ferihegy can of course be increased by rendering the capital more popular and attractive (e.g. through the development of congress tourism, attracting more American tourists for boat-trips on the Danube, etc). At the same time, Ferihegy can only aspire to become a serious economic player by connecting short-distance and long-distance flights, i.e. by assuming regional collecting and distributing (hub) airport functions. This role could be strengthened by intercity rail services to Ferihegy from towns of neighbouring countries close to the border (e.g. Oradea, Košice, Osijek).

Figure 13.1 Hungary and the primary European transportation corridors



The scale of the corridors is proportional to their significance.

Source: Author's compilation.

Molnár's conception (2000), therefore, rests more or less overtly on the assumption that Budapest's development is to be given priority. This would turn the capital into the most important gateway and 'bridge' city in East Central Europe. It is hoped that Budapest's influence will provide incentives to the development of the entire country which could thus profit directly or indirectly as well. Implementing this conception would result in the concentration of air traffic. Consequently, there would be little room for the development and the diversification of the functions of other Hungarian airports closer to the border.

Contrary to this centripetal and concentrated model of air traffic development, I would rather argue for a centrifugal and decentred model. This seems to me to be a more feasible solution both from the point of view of air space usage and that of regional development (which rests precisely on the bilateral co-operation of regional airports located on the two sides of the border).

The International Turntable Role

Since the 1980s, but especially since the system change in Eastern Europe, Europe's economic space has been expanding. Recognising the economic and other advantages to be gained from junctioning international transport and traffic circulation lines, several countries, regions and even larger cities have sought to assume a so-called turntable role.

Hungary's favourable geographical location renders it an ideal candidate for becoming the main such turntable in the Carpathian Basin, and more broadly, one of the important turntables in East Central Europe. This role could involve the junctioning of combined traffic circulations of Northwestern-Southeastern/Northern-Southern/Eastern-Western directions.

Given Hungary's monocentric network structure and the capital's superior infrastructure relative to the rest of the country, the Budapest region seems by far best suited to assuming such a turntable role. The decision to locate the first Hungarian Logistic Centre in the capital's vicinity (to the South, near Soroksár), which has operated since 2003, was motivated by a recognition of this fact. Although at present BIILC (Budapest Intermodal International Logistic Centre) can only be accessed by railway and motorway, it also benefits from the proximity of the Danube international port (Csepel) and an international airport (Ferihegy). Multi-modality permits the re-loading of goods in different modalities and directions – partly as processed or semi-processed goods, partly in unaltered form – to other means of transport. In 2004, BIILC was adopted as the junction for the Hungarian Railway Company's international freight-train carrying lorries. This is the point where RoLa trains arriving from Romania and the Ukraine meet. After the necessary rearrangements and additions they continue their journey to Austria (Wels) or Slovenia/Italy (Koper/Triest). Cargo arriving on Danube ships is forwarded mainly by lorries and trains (www.bilk.hu).

Paradoxically, Hungary's second largest logistic centre with a turntable function was developed in Sopron, near the Austrian border, i.e. at a relatively peripheral geographical location. This is mainly to be attributed to the excellent international business strategies pursued by GYSEV (a railway company founded in 1870 and operated as an Austrian-Hungarian joint venture managing to survive numerous political regimes). Disadvantages of a peripheral geographical location are amply compensated for by the region's relatively high economic, infrastructural and cultural development. The company's outstanding management of diversified international business relations has proved, however, to be even more important. Owing to this, Sopron has become an important re-arranging location for goods transport with direct container and RoLa trains between North Sea ports

(Rotterdam/Bremerhaven/Hamburg) and some large ports in Southern Europe (Thessaloniki, Burgas, Istanbul) as well as Bucharest and Northern ports of the Adriatic. There is no real competition between the centrally-located BIILC and peripheral Sopron, despite the lack of contractual agreements to divide labour or co-ordinate their activities.

Accessibility of Europe's Economic Centres from a Western Direction and Budapest's Circular Accessibility

The location of important *economic centres* is most relevant to the activities of multinational companies. This is because proximity to these companies can facilitate (personal) communication among company headquarters, help co-ordinate demand for and supply of sophisticated services, and transmit non-standard and complex forms of information.

In Europe, 194 economic centres have been identified in the literature. Depending on the network of transport selected, one obtains different territorial patterns of central and peripheral regions (access to which may take different amounts of time). Air traffic conforms the least to classical core-periphery models. This is because Europe's Westernmost parts and islands of the Mediterranean have been classified as central regions owing to their good accessibility by air. (In such cases, there is little overlap between economic and geographical periphery both conceptually and physically speaking.)

With a few exceptions, Hungary is ranked relatively high in terms of respective access times via the road network. It belongs to the same group as the Western two-thirds part of Poland, Slovakia, Italy's Southern peninsular regions, various regions on both sides of the Pyrenees and even the English Midlands. We get a different picture of territorial accessibility when, in addition to the road network, the flight traffic network is also taken into account. In this case, Hungary's central region is ranked even higher (with Croatia, Moravia, and even Germany's Eastern periphery). But this region remains an isolated enclave, while accessibility to the country's overwhelming majority comes close to that of Eastern European regions. In other words, when air traffic is also included in the combined evaluation of the three sub-sectors, Hungary resembles a patchwork in terms of accessibility conditions. Budapest and its surroundings enjoy good accessibility and are classified together with some parts of the Alpine-Adriatic region, while at the other extreme Eastern Hungary and Baranya county have poor accessibility.

Location relative to the *three nearest economic centres* concentrating the greatest contact potential is an important factor for most domestic companies as well. In view of the fact that the impact of such centres extends to about 300 kms, road and rail transport elements of the traffic network are most pertinent to this assessment. Relative to the three centres (Vienna, Budapest and Bratislava), accessibility for most parts of Hungary have a better than average accessibility.

Consequences for Regional Development

Changes in Hungary's position in the European transport space can raise several territorial and other regional problems which need to be addressed by regional policies.

Negative development scenarios:

- If Eastern Europe's economic growth fails to continue in accordance with current expectations and the development of the 'pan-European' network will be restricted to EU areas – including the construction of trans-European networks (with high-speed trains) but excluding the further development of (most of the) pan-European networks – then Hungary's international transport relations will not regain a balanced structure. In such a case, transport orientation will continue to remain strongly lopsided in a pre-dominantly Western direction (pointing mainly towards German-speaking countries). Motorways to be built East of the Tisza will be used by Eastern European transit traffic and not by Hungarian foreign trade. As a result, these motorways will fail to exert the hoped-for positive influence on the location of enterprises in Hungary's Eastern regions. Economic recovery will be slow. Such a situation would favour the development of the country's central and Western regions. Promoting a territorially more balanced development will require much higher contributions from central governmental resources.
- Should the Danube fail to assume the role of a trans-continental traffic 'magistrale' as intended by the European Union (due to a continuation of the Yugoslavian crisis, and even more importantly, to a general reduction in the volumes of goods that can be profitably shipped on waterways), the development of settlements along the Danube as well as that of the whole region concerned will remain unsatisfactory despite predictions to the contrary by regional planners today.

Positive development scenarios:

- Eastern Europe and the Balkan Peninsula will have successfully recovered by 2030 (at least in relative terms). This recovery will be supported importantly by the completion of pan-European networks. In such a case, regional development is also likely to be more balanced in Hungary. A radical increase in the number of locations is to be expected in Hungary's Eastern and Southern regions as a result of profitable economic relations with neighbouring countries assisted by the development of corridors. Thus Hungary could become one of the international traffic junctions on the continent. The 'shadow' cast by the super-axis North of the Carpathians (in Southwestern/Western-Eastern/Northeastern directions) would have less significant consequences for the development of traffic in this region.
- This would also help to turn the Danube into a profitable waterway once again. Southeastern Europe's re-industrialisation and urbanisation is inconceivable as an endogenous process. If at all, it can only take place in close economic co-operation with Western countries.

- Although pan-European corridors planned for Hungary are without exception centred on Budapest (radial routes), Hungary also needs transversal routes in an approximate West-East direction between neighbouring or closely located countries (e.g. between Austria/Slovenia and Italy, on the one hand, and Southeastern Europe and ex-Soviet republics, on the other). This could result in the emergence of a better proportioned main road structure, and ultimately, also further the development of a more balanced territorial structure of the economy and settlements.
- The extremely strong siphoning impact of the corridors – leading to strongly-concentrated zonal development and the desertion of peripheral background areas – is to be compensated for by the construction of (regional and micro-regional) networks of ‘feeding’ routes which could significantly improve the accessibility of the corridors themselves.

Conclusion

Hungary’s geographical transport situation was shaped by changes on the international political scene in the second half of the twentieth century. As long as the country belonged to the Soviet Union’s sphere of influence (especially during the 1950s and 1960s), most transport-related investments served the development of traffic routes towards Eastern Europe in accordance with the country’s overall Eastern orientation. Despite the existence of the Iron Curtain, however, the country’s potential for serving as a transit traffic junction became more valuable.

Following the political, social and economic transformation, Western transport connections have become decisively important in accordance with the change of economic orientation in the 1990s. Transport development policies have given, therefore, priority to improved connectivity with transport networks of the European Union. This has been reflected in the construction of motorways, the development of a ‘quasi high-speed’ main railway line (towards Vienna) and the reconstruction of main roads improving access to Lake Balaton. Due to a variety of factors (i.e. the Channel Tunnel, exceptionally high trade volumes between Germany and other countries, on the one hand, and ex-Soviet republics, the EU accession of Northern European countries, and Berlin’s reinstatement as the capital of Germany, on the other) a super-axis of freight forwarding is beginning to take shape on the German-Polish plains. This has led to the relative devaluation of the transport situation of the central Carpathian Basin.

Hungary’s more distant future in the European transport space as structured by the planned corridor systems of the trans-European and pan-European networks will be most strongly shaped by political issues and transport policies. These include such diverse factors as events in Yugoslavia, the Danube’s availability as a waterway, demand for waterway shipping in the post-industrial age, partial re-routing of traffic from the Eastern Alps to Hungary for environmental reasons, Eastern Europe’s expected economic recovery, construction of trans-continental lines towards the Far East, etc. Such developments will be even more important than

infrastructural developments and the choice of transport technologies (maglev trains).

The general orientation of Hungary's system of international transport relations will be influenced importantly by the choice of maritime areas and sea ports to be used for foreign trade on world markets. It would be rational to rely more on closely located Adriatic sea ports as opposed to more distant North Sea ports which have the greatest share in Hungary's foreign trade at present. At the same time, reducing differences in the quality of services offered is an extremely time-consuming process and a relocation of focal points is, as a result, not likely to take place in the near future.

NOTE

¹ Which is why it would perhaps be time to take 'logistic distance' also into account in regional studies in addition to geographical distance and 'economic distance'.

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New Economy in Space: International Trends and Hungarian Characteristics

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Introduction

The notion of new economy has been interpreted in several different ways. There is no disagreement concerning the fact, however, that the term ‘new economy’ refers collectively to the rapid changes which have affected productivity, employment and economic growth in recent years. A central feature of the new economy is the way in which the sudden development and application of information and communication technologies has triggered a whole series of innovations. These innovations impact considerably on the costs of interactions, transactions and information processing. New opportunities and better solutions become available enabling more efficient company organisation as well as more efficient market and innovation processes. This in turn has a complex and radical effect on the structure and dynamics of the economy (Entrepreneurship 2001).

The emergence of the new economy can be attributed to the interaction and combined influence of countless different factors. Globalisation intensifies competition among companies both on the supply side (production at the lowest possible cost) and on the part of investors and capital markets who also generate more pressure. The ubiquitous presence of communication and information technologies has accelerated the long-term transition from industry to services but has also rendered the task of this transition more challenging. This is because products tend to contain an increasing share of added knowledge and become technologically more and more sophisticated. The internet and mobile technology have made possible hitherto unimaginable levels of information processing, retrieval, analysis and division of labour. Developed societies are spending ever growing amounts on research and development. The results of research are converted more and more effectively and quickly into concrete applications and products. New sectors have come to life such as biotechnology and gene-technology. All of this has led to the fact that non-tangible factors – such as R&D, brand names, know-how and human capital – have become extremely valuable constituting a central source of welfare. Innovation and

entrepreneurial talent convert these non-tangible factors into products and services. These in turn generate economic growth, create new jobs, answer social needs and increase efficiency (Leadbeater and Ussher 1999).

Theoretical Considerations

Alfred Marshall wrote over a century ago that the falling price of means of communication will change the nature of constraining factors influencing the location of various sectors (Marshall 1890). Since that time, the influence of the rapid and continuous development of information and communication technologies on the spatial organisation of economic activities has been the subject of intense academic and political debates.

A considerable part of the relevant literature is devoted to centripetal and centrifugal forces – to use Krugman's (1993) terminology – that lead to the concentration or dispersion of certain sectors. Centrifugal forces induce companies to choose locations far removed from other enterprises operating in the same sector, while centripetal forces concentrate company locations.

Marshall highlighted three important factors with a potential centripetal effect (Marshall 1892):

- knowledge 'spillover': sharing innovations and exchanging ideas,
- labour supply: if employers have access to a large, sufficiently qualified workforce, employers are likely to accept lower wages in order to reduce the probability of unemployment,
- intermediate inputs: access to intermediate inputs.

Many argued in the course of the academic debate beginning in the 1960s that due to the emergence and development of new technologies background conditions would improve and thus a considerable part of industrial activities and services could move from centres to peripheral areas. The emergence of a 'global village' was envisaged as the ultimate outcome of this process (McLuhan 1964).

This debate received new impetus in the early 1990s when the internet was made available for commercial use. It seemed that the internet and the ensuing communications revolution would liberate the economy from the 'chains' of spatial distance. ICT products can easily bridge physical distance and overcome geographical obstacles (Quah 1999), therefore, the digital revolution could issue in the 'death of distance' (Cairncross 1997) since such 'weightless' goods as software, databases, electronic libraries and the new media would be transmitted free of charge. On Quah's account, transportation costs for a given output would no longer be dependent on the physical distance to be bridged, but rather on whether the consumer has access to the internet or not (Quah 2001). If consumers find themselves outside the world wide web, they are not reachable in which case transport costs are infinitely high. By contrast, if they are online, transport costs are zero. It was predicted that as a result the impact of centrifugal forces would be dramatically reduced. In other words, the more widespread access to the internet became, the more radically would centrifugal forces ebb away.

New technologies would also make it possible for employees to work at any given location. This digital economy could contribute to the economic development of backward regions. The impact of new technologies would be palpable not only in new economic sectors, but traditional sectors would profit too since access to world markets would be better than ever before.

The emergence of Silicon Valley and that of other concentrations of state-of-the-art ICT and high-tech industries tells, however, of diametrically opposing trends. What happens in such cases is precisely that ICT improves the competitiveness of regions and cities already in an advantageous position. It seems, therefore, that information technology and cities are tied up in a close, symbiotic relationship. Graham identifies three reasons for this:

1. ICT locates close to already existing, highvalue-added industries and services thereby accelerating the dynamics of urban growth.
2. A fragile world economy, innovation risks and complexity present in every sector have resulted in the fact that ICT came to be located in places where the 'innovational environment' was adequate in order to maintain competitiveness.
3. Finally, cities also generate demand for ICT: mobile and fixed telephone networks, computer networks, internet services. The main reasons for this are the following: the culture of modernisation in large cities, capital concentration, relatively higher spendable income, high concentration of internationally-oriented and transnational enterprises (Graham 2000).

These factors have strengthened the positions of large cities (Barsi and Csizmadia 2001). In addition, cities tend to concentrate important decision-makers. Despite all previous expectations, the importance of personal relationships has not gone back at all. This is because in the course of personal encounters communication processes are enriched by changes in the colour of one's voice, facial expressions and body language. It has also been shown that the creativity and efficiency of problem solutions will be greatly enhanced if the frequency of personal contact is increased (Sweeney 1987). Once personal contact has been established, it can be maintained by technological means (phone, fax, email). Personal contacts nevertheless remain a key area of communication (Grimes 2000). As Meier-Dallach put it, ICT plays a great role in the area of 'routine contacts', but cannot replace 'decision-making contacts' (Meier-Dallach 1998).

The significant territorial concentration of internet content providers is no coincidence either (Tuomi 2001) for these enterprises must have access to adequate information and knowledge. Moreover, this is a kind of knowledge that is difficult to express in a digitalised or textual form. This problem is analysed by Collins in his study on the transmitting of scientific information (Collins 1975, 1987). Collins calls attention to the fact that in numerous cases it is practically impossible to repeat scientific experience by merely reading out a description of the relevant findings. More often than not, physical proximity and situational knowledge is also required for this.

In theory, therefore, ICT can have both centrifugal and centripetal effects. Ultimately, the interaction and resultant of these forces give spatial structure its final shape.

International and Hungarian Research on the Spatial Structure and Impact of the ICT Sector

International research projects can be divided into three main groups:

- Research on the specific impact of ICT use on location,
- Analyses of the spatial impact of ‘new sectors’,
- Finally, studies of the impact of ICT on new and traditional sectors.

Studies on the effects of decreasing transport costs belong to the first group (Klier 1999; Hummels 2001). One can cite, by way of example, surveys on the location of subsidiary companies relative to the headquarters – as a function of the ICT-intensity of the given sector – tracing changes of centripetal and centrifugal forces. Such empirical surveys point to the dramatic decline of transport costs. At the same time, findings of studies in this group are so complex and often contradictory that they hardly permit general conclusions.

Another large group studies the territorial location and organisation of new sectors (Sandberg 1998; Le Blanc 2000; Zook 2000; Gillespie *et al* 2001; Koski *et al* 2001; Quah 2001; Bonaccorsi *et al* 2002; Cooke 2002). These analyses all agree on the conclusion that new technologies further increase regional discrepancies. We would like to argue, however, that in order to draw such clear and general conclusions further studies will be necessary. This is because clustering and concentration is characteristic not only of the ICT sector, but more and more of traditional industries as well. Furthermore, it is also to be emphasised that the organisation of new technologies into networks, their relatively cheap and flexible location, as well as their suitability to a wide range of applications carry great potential for measures geared towards the reduction of territorial disparities.

It is also to be investigated to what extent old and new clusters and focal points overlap. Studies belonging to the third group study precisely this question. The discussion here concerns much broader aspects of ICT (Kolko 2001; Midelfart *et al* 2001; FEEM 2003). Based on the findings of these inquiries, it is possible to say that the concentration of individual sectors is explained by two main factors: sectoral demand for highly qualified labour and growth profiles. Activities associated with ICT and the internet tend to concentrate to a relatively lesser extent in the long run. Moreover, even if ICT clusters do emerge, they do not necessarily strengthen traditional regional disparities stemming from previous times. In terms of most previously used indicators (e.g. the share of ICT in total industrial exports, value-added, etc.), former peripheral EU members, such as Finland, Ireland and Sweden, rank among the most ICT-friendly countries.

The emergence and study of various phenomena in the area of information society and economy have no great tradition to look back on in Hungary (Erdósi 1990, 1991). That relatively few studies with a territorial focus and interest in spatial structures have appeared until now is perhaps to be attributable to the lack of such a tradition, or else to the fact that new information phenomena are characterised by rather complex processes. A part of the studies available have sought to compile various systems of indicators and to use these to represent the varying development of the country’s individual areas (counties, micro-regions, towns) or to circumscribe

areas at similar levels of development. Another group of studies focuses on a given sector of the new economy. These analyses include surveys of infrastructural elements (telecommunications, availability of computer solutions, information networks [Tiner 1992; Kanalas 2000; Nagy 2000; Rechnitzer *et al* 2004]). Others investigated content elements associated with infrastructure, such as content provision, R&D and innovation capacities (Rechnitzer and Csizmadia 2004) or knowledge-base and higher education (Bakonyi and Bálint 1996; Rechnitzer and Smahó 2004).

Inquiries conducted by János Rechnitzer in the 1990s, aimed at the exploration of the innovation environments of domestic settlements and the structure of Hungary's innovation space, endeavoured to trace the significance of the introduction of innovations and their role in modernisation processes. Analysing various innovation activities and the appearance of new products and technologies is no easy task. Rechnitzer has produced his findings on the basis of the combination of innovation-generating elements of the domestic urban network. Using data that had become available in the period after the system change, he identified groups with specific *innovation environment characteristics* of their own. These groups representing different levels of innovation could be formed from the variables by means of factor and cluster analysis (Rechnitzer 1993).

Seven years later, Lengyel and Rechnitzer (2000) repeated the study that had been carried out in the early 1990s seeking now to explore the restructuring of the urban network during the 1990s. They also sought to throw light on the causes and motivating factors of competition among towns.

Gábor Nagy's (2002) work is among the most recent Hungarian research projects. It analyses territorial differences at regional, county and, to a lesser extent, urban levels. Relying on statistical indicators, he developed an 'urban information index' in order to understand better territorial disparities in Hungary.

A larger research group took on the task of investigating the 'new dimensions' impacting on the economy's spatial structure. This study was aimed at developing new methods enabling an up-to-date portrayal of new economic processes and phenomena and their spatial characteristics (Salamin 2003). This analysis paid special attention to the spatial structure of the information economy and society (Jakobi 2003). It reached the following general conclusions:

- with regard to the state of information society as well as practically every component of the economy, Budapest stands out by far from the rest of the country in absolute as well as per capita terms,
- competitiveness and development in the new economy is strongly correlated with settlement size especially for infrastructure and accessibility factors,
- settlements with dynamic higher education and R&D environments (e.g. university towns) constitute important regional focal points in Hungary's spatial structure.

In order to explore (i.e. confirm or deny) the above findings, we have also carried out a survey of the main characteristics of the ICT sector, an important segment of the Hungarian information society. In the following section of this paper, we are going to provide a detailed account of the role played by the ICT sector in the

Hungarian economy including sectoral characteristics, location factors, the spatial distribution of ICT enterprises and the changes of this distribution over time. We will seek to answer the question whether ICT activities really appear in a concentrated form, and whether they really conserve territorial disparities or not.

The Significance of the ICT Sector¹ and its Position in the Hungarian Economy

The significance of the ICT sector in Hungary is decisive primarily because of its contribution to the dynamic expansion of the new economy, its exceptional innovation output as well as its stimulating effect on the development of other economic sectors (e.g. manufacturing, trade, business services). It must also be noted that its overall share in the economy has been growing continuously since the middle of the 1990s (Table 14.1).

These statistical figures clearly show that relative to the overall economic output the ICT sector increased its share by 8% in the GDP and by 4% in gross value-added between 1995 and 2001. That this sector has the potential to promote general economic recovery is indicated by its export-orientation which is well above the national average, its exceptionally high per capita gross value added, continuously increasing employment figures (while the total workforce increased by 4.3% between 1998 and 2001, the same rate was 25% in the ICT sector), as well as the average monthly gross wage of those working in this sector which exceeded the national average by about 30% (Tables 14.2 and 14.3).

The dynamic improvement of various economic indicators of the ICT sector is likely to continue. This is because after Hungary's accession to the European Union enterprises will be forced to increase productivity in response to the steady growth of markets and the expected increase in the number of competitors.

Companies which are slow at introducing new technologies or refuse to rely on information services can find themselves facing a serious competitive disadvantage. For this reason, the market of knowledge-intensive products and information-sensitive services has been continuously expanding. Market strategies geared towards such products and services render companies more competitive and reduce dependence on cyclic economic booms in the case of products for the services *sector* (Dőry and Ponác 2003).

As markets expand it is also worth investigating which specialised areas within the ICT sector have developed and will develop the fastest on the basis of products and services with higher value-added and their ability to adjust to and exploit economic conditions in Hungary.

Table 14.1 The ICT sector's share in the economy

	1995	1997	1999	2001
In GDP (%)	6.3	11.4	13.9	14.3
In gross value-added (%)	8.0	11.4	12.3	12.0

Source: KSH (Central Statistical Office): The ICT sector in Hungary 1995-1997, 2001 and HIF (National Communications Authority) Statistical Yearbook on Telecommunications 2002.

Table 14.2 Indicators of the ICT sector economic share

	1998	1999	2000	2001
Share of export revenues from total net revenues (%)				
Economy overall	21.0	22.2	23.4	23.9
ICT sector	43.3	47.2	42.9	49.1
Per capita gross value-added, current prices (in million HUF)				
Economy overall	2.3	2.6	2.9	3.3
ICT sector	5.6	6.1	5.8	6.4
overall				
From which:				
Manufacturing	3.9	3.7	3.4	3.6
Product-related services	5.1	5.5	6.0	6.6
Non-product-related services	7.5	9.0	8.9	10.0
Number of employees (thousand people)				
Economy overall	2 138.7	2 131.7	2 198.3	2 233.5
ICT sector	102.4	112.9	132.2	137.1
overall				
From which:				
Manufacturing	49.5	57.7	70.4	72.8
Product-related services	6.9	7.6	8.9	9.8
Non-product-related services	46.0	47.6	52.9	54.4
Value of assets invested (in billion HUF)				
Economy overall	10 211	13 564	19 050	23 506
ICT sector	955	1 294	1 646	2 192

Source: HIF Statistical Yearbook on Telecommunications 2002.

Table 14.3 Key economic indicators of the ICT sector

	1998	1999	2000	2001
Number of active enterprises				
Economy overall	802 215	847 024	840 575	860 022
ICT sector	24 231	26 910	28 404	30 740
overall				
From which:				
Manufacturing	3 643	3 774	4 290	4 289
Product-related services	2 407	2 570	2 686	2 788
Non-product-related services	18 181	20 566	21 428	23 663
Average monthly gross wage of employees, current prices (HUF/month/capita)				
Economy overall	77 187	87 645	103 553	122 482
ICT sector	105 462	126 627	149 620	175 389
Value of investments, current prices (in billion HUF)				
Economy overall	2 427.1	2 831.7	3 122.1	3 408.5
ICT sector	244.1	372.5	304.4	250.4
overall				
From which:				
Manufacturing	73.7	125.2	88.0	72.7
Product-related services	6.3	6.9	10.5	9.1
Non-product-related services	164.1	240.1	205.9	168.6

Source: HIF Statistical Yearbook on Telecommunications 2002.

Characteristics of the Hungarian ICT Sector

The analysis of specialised sub-sectors of the ICT sector indicates that in recent years most enterprises have been launched in the area of 'non-product-related services'. This field has recorded the highest investment figures. This is also where the value of assets invested have been the greatest and where the gross value-added expanded most dynamically (by more than 30% between 1998 and 2001). Within the area of 'non-product-related services', the sub-sectors of software development and consultancy, information technology and data processing have seen the most spectacular development, both as regards the number of companies and employment. At the same time, the largest investments in this area have been associated with telecommunications activities where more than 823 billion HUF (amounting to approximately 70% of all ICT investments) have been invested in recent times (more precisely, between 1999 and 2002).²

The role of ‘manufacturing’ is also to be highlighted within the ICT sector because of the relatively high number of enterprises and employees, the dimensions of investments carried out and the innovation potential of the relevant activities. This area comprises eight specialised sub-sectors. The number of manufacturing enterprises has been steadily increasing in recent years. Thus there were almost 4300 companies registered in 2001 employing more than 72 thousand people. ICT enterprises in manufacturing are characterised by the high share of foreign capital (81%) and a particularly strong orientation towards exports, the most significant within this sector. The significance of ICT manufacturing (e.g. computer and telecommunications appliances) is further increased by the fact that foreign companies settling in Hungary have introduced at the majority of enterprises professional skills and production technologies previously unknown in this country. Moreover, products with high value-added started to become more important in the production structure requiring continuous development. Consequently, R&D departments have been added to production facilities at several companies (e.g. IBM, Ericsson, Elcoteq, Flextronics, General Electric).

ICT manufacturing, however, is still not very strongly embedded in Hungary. This sector is extremely sensitive to market shifts. Thus it reacts very quickly to international (e.g. ‘dotcom crisis’ and general economic recession) and domestic (e.g. decaying economic competitiveness in recent years) changes by restricting or shutting down production (e.g. IBM’s abandoning of its production site in Székesfehérvár). This process is also reflected in statistical figures of recent times. It can be seen that the willingness to invest has gone back, while gross added value has stagnated and the number of enterprises failed to grow. Unfortunately, the domestic subcontracting background is also inadequate. This can only be partly attributed to the limited potential of local companies. International studies have shown that information manufacturing is a sector in which local actors are most likely to operate in isolation, or else to connect almost exclusively to their base companies and own multinational networks independently from their host countries (Szalavetz 2002).

In order to reverse this unfavourable tendency and to further the integration of ICT enterprises in Hungary, it is important to enhance the potential of local companies, strengthen local technological diffusion (e.g. by intensifying connections between local industries and universities and by promoting co-operation between the ICT sector and information-sensitive economic enterprises), and to study the availability and quality of factors required for the location of this sector.

Location Factors of the ICT Sector

The location of enterprises within the ICT sector is influenced by a number of factors. Effective operation of such enterprises presupposes in essence three ingredients:

- technological background (development and quality of telematic infrastructure, variability of data communication solutions, adequate info-communication services background, etc.),

- economic environment (economically advanced areas, high density of enterprises, markets of adequate size with solvent demand, etc.),
- social environment (production and services traditions, highly-skilled labour, adequate cultural environment, high innovation and adaptation levels).

It is important to take into account that each specialised sub-sector of the ICT sector has varying needs. Thus different location factors may be important for ‘manufacturing’, ‘product-related’ and ‘non-product-related’ ICT services, respectively.

In developing countries, Hungary included, FDI channelled into information-communication manufacturing is looking for opportunities to improve productivity rather than ways to seize strategic advantages. Investors are interested in areas offering cheap labour and low operative costs for the production of (more labour-intensive) goods with lower technological and processing levels. Such enterprises tend to react very swiftly to the decline of internal competitiveness. Owing to low regional embeddedness, production can be quickly abandoned and re-launched in areas offering more favourable conditions. By contrast, for the production of goods with higher value-added and technological sophistication, location is no longer necessarily determined by low wages, but rather by manufacturing traditions, skilled labour and the accessibility of a high educational and research potential. The regional embeddedness of such enterprises is higher than that of companies with production of the previously mentioned type. In addition, the significance of the latter type of investments for the national economy is also greater given the production of higher value-added goods and their contribution to improved competitiveness.

It is true, however, of all ICT manufacturing companies that due to their marked export-orientation and their reliance on the uninterrupted delivery of spare parts and accessories, they prefer settlements and regions of geographical locations which are easily accessible by means of transport and generally have a good transport infrastructure.

Different location factors can be identified for companies providing ICT services than in the case of manufacturing enterprises. In addition to the presence of a sufficiently large market and solvent demand, services providers tend typically to choose locations where labour with specialised expertise is available. When launching high-level ICT services, enterprises can be observed to focus on administrative, educational and economic centres with a large population and extensive settlement functions. In the first half of the 1990s, the location of ICT services was considerably influenced by the proximity of multinational companies which were responsible for the first few large contracts. Later, however, settlements concentrating advanced services, both for private and business purposes, became more important. Finally, from the middle of the 1990s onwards, parallel to the general recovery of Hungarian enterprises, location began to be influenced by the high density of enterprises as well. Finally, in addition to economic, social and cultural factors, the development of advanced telecommunications infrastructure has from the very outset also influenced the direction of the expansion of info-communication services.

These findings enable us to conclude that location factors crucially impact on the spatial distribution of ICT enterprises in Hungary and can be observed to display a number of specific characteristics.

Territorial Distribution of the ICT Sector

Following the sweeping social and economic transformation in the wake of system change, ICT enterprises appeared in larger numbers in more developed regions. These adjusted better and faster to the new circumstances (Table 14.4).

The extent of territorial concentration is indicated by the fact that more than two-thirds of all ICT enterprises (with legal status) were located in Budapest and Pest county in the early 1990s. It is to be noted that in these areas as well as in Fejér county not only was the ICT enterprises high, but their share in the total number of enterprises also exceeded the national average. This suggests that in these counties

Table 14.4 Distribution of ICT enterprises by county

County	Total number of ICT enterprises*		Total number of enterprises*		ICT/total number of enterprises (%)	
	1992	2002	1992	2002	1992	2002
Bács-Kiskun	77	501	2847	15170	2.7	3.3
Baranya	93	531	2656	14565	3.5	3.65
Békés	38	208	1377	7502	2.76	2.77
Borsod-Abaúj-Zemplén	91	606	3208	16873	2.84	3.59
Csongrád	96	598	2539	12819	3.78	4.66
Fejér	115	598	2493	13318	4.61	4.49
Győr-Moson-Sopron	88	541	2412	14470	3.65	3.74
Hajdú-Bihar	71	537	2346	15114	3.03	3.55
Heves	27	264	1038	7186	2.6	3.67
Jász-Nagykun-Szolnok	44	297	1459	8853	3.02	3.35
Komárom-Esztergom	57	378	1960	10002	2.91	3.78
Nógrád	24	125	1902	4224	2.66	2.96
Pest	302	2627	6361	44295	4.75	5.93
Somogy	44	258	1651	8815	2.67	2.93
Szabolcs-Szatmár-Bereg	71	364	1876	12355	3.78	2.95
Tolna	30	204	1104	6121	2.72	3.33
Vas	30	251	1041	6859	2.88	3.66
Veszprém	33	281	1844	10 179	1.79	2.76
Zala	44	249	1633	9320	2.69	2.67
Budapest	1853	11 542	32036	168057	5.78	6.87
<i>Total</i>	<i>3228</i>	<i>20960</i>	<i>72783</i>	<i>406097</i>	<i>4.44</i>	<i>5.16</i>

*Economic associations with legal status were registered according to the location of their headquarters

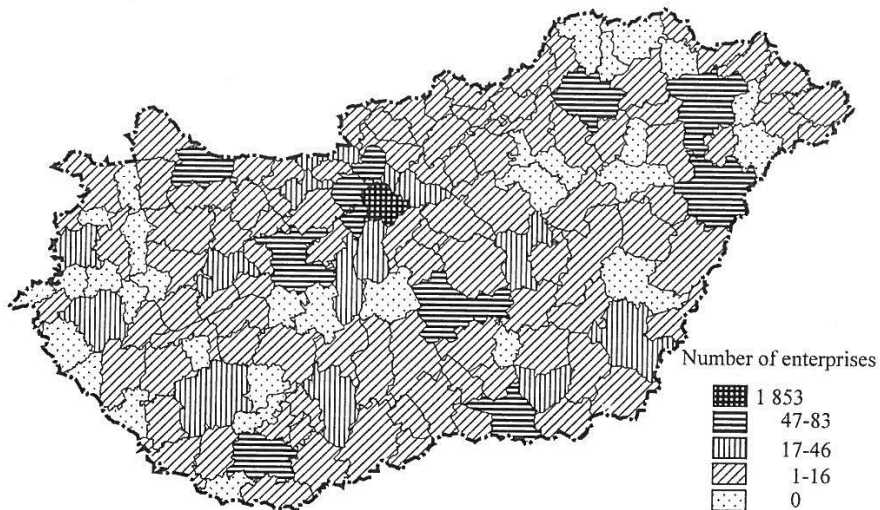
Source: KSH Cég-Kód-Tár 2002/3 (Company-code-register of the Central Statistical Office).

factors required for the location of ICT enterprises (e.g. skilled workforce, large markets, a wide spectrum of services, adequate infrastructural background) were available to a sufficient extent or at least in a more favourable combination than elsewhere.

In any case, there are considerable disparities in the quality and quantity of location factors throughout the country. This explains the fact that even ten-fold differences among various areas could be registered in the county-level distribution of ICT enterprises in the early 1990s. We get an even more striking picture by studying the emergence of ICT companies at the level of micro-regions (Figure 14.1).

The information and communication economy of the early 1990s was concentrated in a relatively small geographical area. Enterprises of this sector appeared in larger numbers only in the micro-regions of county and regional centres (county seats concentrated almost 80% of ICT enterprises) and in Budapest's agglomeration zone. In two-thirds of Hungary's micro-regions, however, no ICT enterprises at all or only very few have operated. The existence of such areas, where for the most part ICT enterprises were entirely missing or only very poorly available, well represented the massive information and communication disadvantage suffered by countryside regions. This handicap only exacerbated their deep-running economic, social and infrastructural problems and has negatively influenced their future development as well.

Figure 14.1 Territorial distribution of ICT enterprises in 1992.



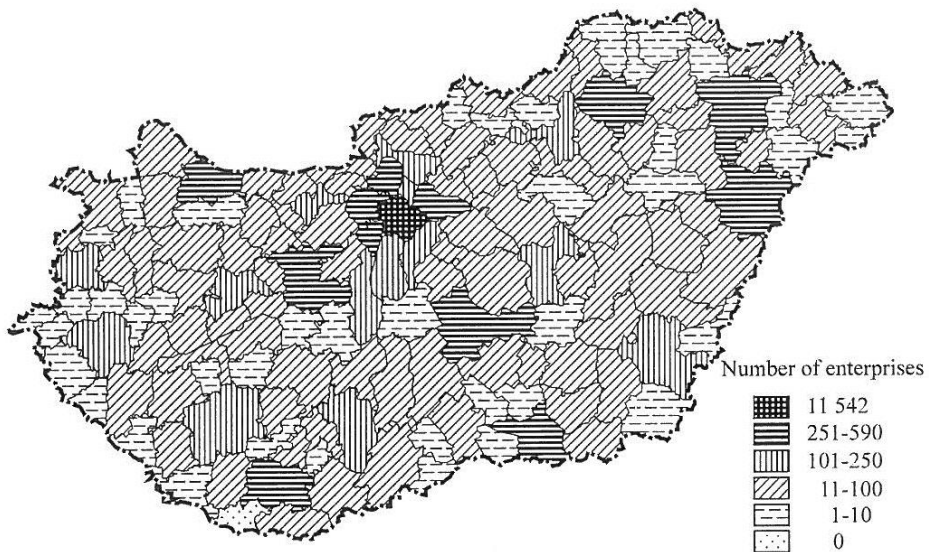
Source: Authors' own calculations on the basis of data by *KSH Cég-Kód-Tár 2002/3* (Company-code-register of the Central Statistical Office).

From the second half of the 1990s, the dynamically growing presence of FDI, a generally improving economic performance and the development of telematic networks – following the privatisation of the telecommunications sector in 1994 – was accompanied by the proliferation of ICT companies on the domestic market. In accordance with international trends, the number of enterprises (with legal status) has increased about six-and-a-half-fold in this sector during the last ten years. This growth can be attributed to the growing demand for information generated by a more and more liberal economy, the development of public administration and an increasingly democratic society – and was certainly also driven by international tendencies (globalisation, information and communication revolution, preparation for EU accession, etc.)

The multiplication of ICT enterprises was accompanied by their gradual spread all over the country. This is well indicated by the fact that while 3228 enterprises with legal status were concentrated in as few as 300 settlements in 1992, almost 21 000 companies operated in about 900 settlements in 2002. Despite overall decentralisation, Budapest's and Pest county's dominance further increased at the county level (68%). In addition, even though the share of ICT enterprises increased in almost every county, the former ten-fold difference in the number of locations now became a twenty-fold gap (comparing Pest and Nógrád counties).

These discrepancies have become even more pronounced at the micro-regional level. Regional centres which have seen more intense ICT activities formerly (micro-regions of Budapest, Győr, Debrecen, Miskolc, Pécs, Szeged, Székesfehérvár)

Figure 14.2 Territorial distribution of ICT enterprises in 2002



Source: Authors' own calculations on the basis of data by *KSH Cég-Kód-Tár 2002/3* (Company-code-register of the Central Statistical Office).

as well as the most favourably situated parts of the Budapest agglomeration (the Szentendre, Pilisvörösvár, Budaörs, Gödöllő micro-regions) now form ‘enclaves’ in their respective surroundings. Meanwhile, in about a third of all micro-regions, the number of ICT enterprises still fails to reach even 10% of the overall micro-regional average. The areas least attractive for the ICT sector are the micro-regions located on the internal peripheries of regions most severely hit by economic and social crisis – the Northern Great Plain, Northern Hungary and Southern Transdanubia – close to national or county borders (Figure 14.2).

As regards the settlement network, the pattern of the appearance of ICT enterprises has closely followed the levels of the settlement hierarchy. Approximately 90% of enterprises in this sector are located in towns. Locations in regional centres are particularly characteristic as two-thirds of all ICT enterprises are to be found in these settlements.

In addition, it can also be observed that the concentration of companies associated with the ICT sector is much more significant than for all other kinds of economic organisations. These findings appear to confirm the view that proximity to settlements with central functions is a particularly high priority in the information and communication sector (Rechnitzer *et al* 2003).

The Role of Information and Communication Technologies in Social Development

In our time, new solutions made available by technological developments increase the scope of public policies for the promotion of equality of opportunity. They also strengthen integration processes in all sub-systems of society. This modernising trend could to some extent relativise various notions of space.

This general claim is also supported by the argument that the role of centres has undergone considerable changes. In the future, this role will not involve the issuing of dictates from the centre, but rather will mainly consist in organising bottom-up initiatives (Farkas 2003). Since it does not exercise a centralising influence, the ‘network revolution’ enables a more adequate representation of the movement and activities of peripheries within the country. The changing role of peripheries, which is also related to technological innovation, is tied up with regionalising processes and the possible dismantling of the interventional competencies of the central state.³ At the same time, it is important to see that due to the acceleration of innovation activities, the scope of backward regions (in both an economic and social sense) for the adaptation of info-communication technologies is limited. As a result, despite their development in relative terms, competition in the age of the information society could further increase development and territorial disparities.

In our view, it is the much-quoted ‘sustainable’ and ‘organic’ path of development that can offer a chance to peripheries. Local development efforts are to be adjusted to the circumstances of each place and be at the same time compatible with global technologies (Norris 2001).

Distribution of Info-communication Solutions and Some Characteristics of Informational Attitudes in the Light of Sociological Research Data

We are not claiming to say anything new by stating that the most dynamic sub-system of info-communication development is the economy. It is worth investigating how macro and micro-groups of society respond to the opportunities offered presented by the location of ICT enterprises. In particular, it is important to raise the question whether the territorial characteristics associated with the growth of the Hungarian ICT sector correspond to the findings of sociological surveys on the spread of digital culture.

The presence of a digital divide in Hungary is well indicated by the significant inequalities in the number of personal computers per household in different regions. The number of households with computers is higher than average in the Budapest agglomeration and Transdanubia, while it is the lowest in households of the Great Plain. At the same time, the region of the Southern Great Plain has witnessed the most dynamic growth in recent times. The figure of 19% recorded here constitutes a 34% increase relative to the previous year (2000). Only the region of Central Transdanubia saw growth at a similar rate (Dessewffy and Fábíán 2002).

According to the info-communication accessibility index created from the database of the 2001 World Internet Project (WIP),⁴ the regions of Central Hungary and Western Transdanubia are, relatively speaking, better situated. The Great Plain was the most disadvantaged, while other areas of Transdanubia and Northern Hungary, following developments in info-communication usage, occupied intermediate positions (Fábíán 2002).

Comparing territorial indicators of the representative population survey with the findings of a so-called prominence⁵ survey (Szarvák 2001) reveals that respondents (decision-makers in regional development partnerships [Horváth 2000]) identified the regions of Central Hungary and Western Transdanubia as being in the most favourable position from Hungary's seven regions with regard to the development prospects of information society.

Interviewees of the partial sample from Central Hungary, contrary to respondents in Western Transdanubia, have not agreed that the region would occupy an undisputed leading position in terms of the diffusion of information society. This is presumably to be attributed to the divergent social and economic development of Pest county which explains why the dispersion of possible 'ranking' values (1–7) was at a maximum for this region (Table 14.5).

Southern Transdanubia and the Southern Great Plain are ranked as regions with average levels of development. The Northern Great Plain and Northern Hungary occupied worse-than-average positions. Most respondents were aware of the unfavourable situation of their regions as reflected in the lower dispersion of the pertaining values.

On the whole, the info-communication accessibility index and the subjective ranking of regional attitudes displayed a similar picture. They showed, in addition to

Table 14.5 Indicators of the digital divide by region in 2001

Regions	Households with computer ⁶	Info-communication index (1–100) ⁷	Subjective rankings of information society attitudes (1–7). Averages* ⁸
Central Hungary	30	51	2.69
Western Transdanubia	24	50	2.72
Central Transdanubia	20	45	3.33
Southern Transdanubia	20	44	3.96
Northern Hungary	17	41	4.72
Southern Great Plain	14	38	4.18
Northern Great Plain	16	36	5.50

Source: Authors' compilation 2003.

* Highest grade: 1

the capital's strong influence, a 'digital slope' slanting downwards from the West toward the East, and especially in Transdanubia, also from the North toward the South.

It is worth mentioning that respondents from the Southern and Northern Great Plain in the already quoted prominence survey were much more confident than other respondents of other regions that developing information society can play a certain role in accelerating regional development too. Their replies reflected the conviction that the development of information society will contribute to the reduction of territorial disparities. Presumably such an 'optimism' in Eastern regions concerning the positive effects of information society can be attributed to a critical view of traditional means of modernisation and ways of breaking out of economic backwardness. In our view, these attitudes can be traced back to main reasons. First, the general disintegration of values (a state of 'anaemia') characteristic of the decade following the system change. Second, the sociological fact that information society tends to figure in public discourse as offering the prospect of a genuine breakthrough to Hungary in general (as it has to Ireland), as well as to backward regions within the country, on the periphery of the European Union, in particular.

The comparison of patterns of social distribution with factors of economic location (higher education, R&D, information infrastructure and applications, high-level business services, ICT enterprises, etc.) yields two main points. First, there are still few surveys of information society that study digital inequalities in smaller regional units and draw on larger samples. In any case, territorial units of information society classified in a recent work by one of the authors of the present work (Kanalas 2003) as 'core', 'stand-by', 'stagnating' and 'falling behind' are easily recognisable in a regional comparison as well.

At the same time, even though certain counties (e.g. Csongrád, Bács-Kiskun, Hajdú-Bihar) are classified in the info-communication accessibility index as falling behind, they nevertheless enjoy advantageous positions with regard to the location of the ICT sector. This finding confirms that development has been restricted to enclaves. It also recalls György Csepeli's thought that the real disparity in info-

communication usage is to be found between urban and rural habitats (Csepeli 2002).

Consequently, this paper also needs to pay heed to the notion of ‘digital divide’. This notion has been given a complex treatment by a series of works (e.g. Rodriguez and Wilson 2002; Hüsing 2003) in connection with info-communication products and outputs (e.g. computers, internet networks, mobile communication, etc.) as well as inputs (expertise, users, settlements, etc.) As far as the question of the diffusion of info-communication solution is concerned, there are significant differences in terms of classical sociological variables (gender, age, qualifications, income, place of residence).⁹ It is important to note that there will always be differences among various social groups in the use of info-communication solutions (Norris 2001).

Others (Zapf 2002, and to some extent also Fukuyama 2000) view the notion of the ‘digital divide’ as a ‘cultural gap/divide’. This is because innovations generated by technological changes, depending on people’s adaptation levels and cultural attitudes, take the longest to strike root precisely in basic components of the social ‘life-world’ in the classical sense. In other words, the adaptation of technological innovations of the modern information age is primarily of cultural relevance.

Thinking about the concept of the ‘digital divide’ – to address new economic aspects of the question – requires, among others, a theory on the diffusion of innovations. András Rigler (Rigler 2002) argued that in the initial phase of diffusion working with information technology was considered to be a purely professional activity. In the second phase, however, information technology broke out of exclusively professional circles, but still remained accessible to a restricted group of people only. Computers were still used as tools for professional purposes. In the third phase, information appliances and services became available to a much larger group of people, while the fourth phase is marked by the introduction of solutions the use of which turns computers and the internet into valuable and in some cases indispensable means of support in everyday life.

The tendencies outlined above indicate that, due to the continued development of info-communication applications, internet accessibility will become available in practically every dimension of private, public and economic life. This suggests further that using info-communication applications will become indispensable for enhanced social participation and for new policies promoting equality of opportunity.¹⁰

In addition to changing consumerist attitudes, info-communication skills are already becoming a crucial precondition of active employment. The growth of such knowledge, therefore, could generate positive effects resulting from a more widespread use of info-communication technologies.¹¹ Furthermore, e-government and other info-communication technologies are hoped to enable the more economical operation of state services providers, particularly in the health and education sectors. However, this objective can only be realised if the majority of the population has access to and is also able to use info-communication applications. It can be observed that more and more everyday services are also offered online in the private sector. To sum up, it is safe to say that the costs of everyday life increase the most for those who lack access to info-communication technologies and have no expertise in using them (Hüsing 2003).

Conclusion

This study endeavoured to sketch a portrait of the Hungarian appearance, development and regional characteristics of the new economy, and in particular that of the ICT sector. It also discussed the impact of local society (characterised by qualifications, cultural attitudes, activities and opportunities) on these processes.

Info-communication technology forms the basis and is one of the driving forces of the new economy by virtue of the new prospects it opens up and the information-sensitive economic activities it attracts. It is important to trace changes of these activities in space and time in light of their growing role in the whole of the economy. These new activities, as well as information or knowledge-based sectors in a broader sense, tend to be strongly concentrated in Hungary. This is explained by the fact that a special combination of the qualitative elements among factors of location (developed infrastructure, highly-qualified experts, solvent demand of sufficient magnitude, intense innovational activities, etc.) is required. This combination is mainly available in multi-functional urban spaces. For this reason, ICT enterprises appeared in a territorially well-structured form closely following the levels of the settlement hierarchy.

In recent years, regional policy has largely focused on the potential of the 'new economy' to overcome physical distance. It was hoped that as a result peripheral regions could be freed from the obstacles posed by their geographical location. We have tried to show that the 'death of distance' has not become a reality since personal encounters and tacit knowledge continue to play a considerable role in creativity as well as the emergence and spread of innovations. Thus, in an indirect fashion, spatial proximity of decision-making centres continues to be an important condition of economic development. In any case, electronic communication can only complement, rather than replace, personal relationships. Problems of peripheral regions are not caused exclusively by distance. This is clearly shown by the fact that locating new technologies in backward regions has produced few tangible results.

It is still to be investigated where specialised areas of the ICT sector tend to concentrate. It is also a question whether some sectors are more likely to spread in space than others and to what extent these can contribute to reducing regional disparities. Of crucial importance is to inquire how far innovations associated with ICT can be integrated into the fabric of the local economy in disadvantaged regions and what systems and strategies of incentives can lead to a significant increase in the popular use of these innovations in these regions.

NOTES

¹ The classification of the information and communication sector (ICT) is based on the definition of this sector adopted by the OECD in 1998. It includes specialised sectors producing information and communication products and services. According to sectoral codes and classifications of the TEÁOR '98, the ICT sector comprises 19 specialised sub-sectors.

- ² High investment costs are mainly caused by the development of high-quality services, an extremely capital-intensive telecommunications infrastructure and technological background as well as the introduction of top-level services. These were obligations laid down in concessional contracts signed during the privatisation of the telecommunications sector in 1994.
- ³ Regional demands are nothing but responses to stigmatisation. This stigmatisation creates the region, from where it seems to originate, at the first place' – says Pierre Bourdieu (quoted in Böhm 1992). What are the characteristics of 'stigmatised space'? Being deprived of the material and symbolic capital represented by the capital (and the centre), and special forms of social and economic distance.
- ⁴ The WIP survey is an international research programme aimed at an in-depth investigation of the social impact of the internet. The first representative data survey was carried out in Hungary in 2001. The survey is of a panel type, i.e. it tries to collect data from the same people every year.
- ⁵ 'Prominence', a Latin expression, indicates as a substantive that something is in an 'elevated' position (in our case social groups). Thus, in our reading, *prominence refers to (expert) groups situated on top of the local social (employment) hierarchy* (Andorka 1997). The methodology of prominence surveys resembles in essence that of various target-group surveys. These do not focus on a 'mass public', but on decision-makers on the top of the pyramid and on 'opinion-making elites' (Angelusz 1983). According to our working hypothesis, prominent personalities of a given social group, region or more important settlements are the key to social and regional innovation.
- ⁶ Dessewffy – Fábíán 2002.
- ⁷ Fábíán 2002. Note on the method of generating the index: WIP researchers only took home access into account.
- ⁸ Szarvák 2001. The survey was conducted in autumn 2001. Thirty two percent of the decision-makers in regional development contacted (members of regional development councils, heads of regional development agencies, directors of county regional development councils, micro-regional representative agents, micro-regional managers) returned our questionnaires.
- ⁹ In drawing up his 'statistical indicators benchmarking the information society' (SIBIS), which he applies to members of the European Union and accession countries, Tobias Hüsing focuses on gender, demographic groups aged 50 or older, formal (low) educational qualifications and income (Hüsing 2003).
- ¹⁰ Programmes for increasing social participation and mobility are particularly important in the information society where innovation is so rapid that a technological stage is skipped in almost every case. Consequently, there is simply no time for the amortisation of an entire sector.
- ¹¹ These considerations underlie, for instance, the project which forms part of the German information society programme ('Internet-für-alle'): the Federal Labour Office provides opportunities for unemployed people without internet know-how to acquire 'internet qualifications' free of charge. Participants are given the chance to expand their knowledge in practice too. This improves their chances of finding work. See: Initiative 'Internet-für-alle' www.bundesregierung.de/servlet.

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Chapter 15

Restructuring Agriculture*

Teréz Kovács

Introduction

In Hungary, the first comprehensive land reform was carried out in 1945. In the course of this reform, large agricultural estates above 100 ‘cadastral holds’¹ (so-called *latifundia*) were expropriated without compensation. The same fate befell peasant estates above 200 ‘cadastral holds’. One-third of all agricultural land changed ownership at this point. Some 650 thousand landless peasants or land-owners with less than 5 ‘cadastral’ holds acquired land around this time and 1.4 million peasant farms began to operate.

The forced collectivisation of peasant farms was initiated in 1948. This process was ended first by Stalin’s death (1953) and then again by the Hungarian revolution in 1956, after which private individual farms were reactivated. The Communist government, however, decided to fully re-collectivise agriculture from 1959. By February 1961 the collectivisation of land, livestock and farming equipment had been completed from which time agriculture functioned on a collectivised basis in Hungary for four decades. The full collectivisation of agriculture was carried out in all other states under Soviet influence, with the exception of Poland, during this time as well. Poland successfully resisted these measures where small peasant farms were allowed, at least on historical Polish territories. Only in the Western part of the country, formerly inhabited by ethnic Germans, were large agricultural companies established.

The system change in 1990 was followed by the privatisation of agriculture. This study aims to portray the differences of the Hungarian privatisation of agricultural land from alternative models of privatisation adopted in other Eastern European countries. It also seeks to show in which parts of the country individual farms and in which parts agricultural organisations have acquired a larger than average share of land in the course of privatisation.

I will assume not only that some elements of the land ownership structure continued to survive throughout the socialist economy, but also that they affected emerging ownership relations after the change of system.

Socialist Agriculture

In the socialist economy, former large agricultural estates (*latifundia*) were replaced by state farms and peasant farms by agricultural co-operatives. In the early phase, several co-operatives could co-exist in one settlement, but a large-scale fusion of co-operatives took place in the 1970s. As a result, one co-operative could comprise even the combined administrative area of 4-5 villages. In 1990, 1500 agricultural co-operatives and 124 state farms were in operation.² The latter were overseen directly by the Ministry for Agriculture. Co-operatives managed 64% while state farms 29% of arable land. In addition, however, 1.4 million families were involved in agricultural production on an individual basis above normal working hours. Statistical surveys referred to these people as *small producers*. These 1.4 million ‘small producers’ farmed only 7% of the country’s total arable land and yet they were responsible for one-third of total agricultural production. It is to be emphasised, however, that ‘small producers’ were tied up very closely with agricultural co-operatives. The latter provided agricultural inputs for them and bought their products.

‘Small production’ can be traced back to a number of sources. The main reason was that in 1962, at the time when agricultural co-operatives were formed, members of agricultural co-operatives were allowed to re-claim and farm 0.5 hectares of land per person. These were called *household plots* because they were often in effect extensions of village house courtyards. In some areas of the Great Plain with large numbers of scattered, remote and isolated farms (*tanya*), the 0.5-hectare plots per co-operative member were allotted around the farm buildings. Married couples could acquire ‘as much as’ 1 hectare of land. This was typically used to grow vegetables or corn. The latter was fed to livestock. Since no communal livestock facilities existed, pigs, cattle, etc. remained in the members’ sties and stables.³ In this system, co-operative managements with ‘enlightened’ attitudes sought, especially from the 1970s onwards, to negotiate agreements with co-operative members for the mutual benefit of the parties involved. Household plots could also be allotted to those who did not own land at the time of the formation of agricultural co-operatives. This was not greeted enthusiastically by landowning founding members of the co-operatives. Land lost its value in their eyes since it was now apparently possible to acquire it for free as well, whereas they had inherited it or had had to purchase it in the past. Those coming to this conclusion sought to provide a better education for their children and did not choose agricultural professions for them.

In addition to household plots, private farms were operated by (usually first-generation) workers and frequently by white-collar employees as well. This was, however, less common than in the case of co-operative members.

This system of private farming was introduced by the Communist leaderships because they wanted to encourage food production given the shortage of certain food products in these countries. At the same time, nearly unlimited demand presented itself for Hungarian agricultural products in the Soviet Union and Eastern European countries (particularly East Germany). People produced both to meet their own needs and to sell their products as well. Thus agriculture provided an additional source of income supplementing low salaries at workplaces. This extra income was

spent on basic and consumer goods; it was not re-invested into the economy. First, such re-investment was disallowed by the authorities. Second, people acted on the belief that the socialist economy would last forever and thus were uninterested in this kind of further economic development.

The Communist Party began to pursue agriculture-friendly policies from 1967. This involved, among other things, the cancellation of the debts of agricultural organisations and increased agricultural subsidies. Until the mid 1980s, 8% of the GDP was spent on agricultural subsidies (Illés 2002). The support of so-called disadvantaged areas claimed the greatest share of such subsidies.⁴ Agricultural productivity increased rapidly. For example, 1.2 tons/hectare was produced on average in 1900, 2 tons/hectare in 1965, 3 tons/hectare in 1971, 4 tons/hectare in 1974, while 5.44 tons/hectare was harvested on average in 1984. The average production of wheat reached an all-time record in Hungary in 1984.⁵

In 1990 813 thousand people worked in agriculture, which amounted to 17% of the total workforce. Of these, 530 thousand people worked in raw material production, whereas 283 thousand people were employed in subsidiary economic activities. Originally, the subsidiary economic activities of agricultural co-operatives involved the production and packaging of agricultural products. Later, however, co-operatives began to manufacture everything that large companies of the state-planned economy could or did not want to produce (Bihari *et al* 1999). These subsidiary activities constituted an important source of employment for the local population. Such agricultural production plants were peculiar and economically complex enterprises which were involved not only in stock-raising and farming but also food processing and occasionally the provision of various services as well. One-third of all revenues in the agricultural sector were generated by such subsidiary economic activities. It became increasingly common that income from subsidiary activities was re-directed into the production of raw materials within the co-operative itself. Had this not been the case, agricultural production would have been unprofitable. In 1990, agriculture was responsible for 15.7% of the GDP while food industry accounted for 8.3%. The strategic objective of agricultural production was to produce exportable goods; 23.1% of the country's exports were made up of agricultural and food-industry products.

Overall, the Hungarian model of agriculture did by no means have a co-operative character. Although it was successful for some time, Hungarian agriculture could produce the enormous quantities of agricultural products specified by state planning in a less and less efficient fashion.

Transition from Socialism into Market Economy in East Central Europe

The transition from a state-planned into a market economy in Eastern Europe involved the privatisation of land collectivised in 1960 or earlier. Creating private land ownership was subject to intense political debates in practically every Eastern European country. Two related tasks had to be accomplished. First, the legal framework of land ownership was to be established, and second, it was to be decided

who would receive land. Two rival conceptions gave different answers to these questions: some believed that land should be restituted to the former owners, whereas others thought that land should be owned by those who farm it (Csáki 1994). The overwhelming majority of countries in the region opted for re-privatisation, i.e. the restitution of land to former owners and their descendants upon their request.

Subsequently, however, former owners approached the farming of restituted lands differently in Eastern European countries which can be divided into two groups in this regard. The first group includes the Eastern Länder of Germany, the Czech Republic and Slovakia. In these countries, restituted lands were usually leased out to others by former owners. These lands were thus farmed by co-operatives or agricultural organisations that replaced them.

In East Germany, as little as 17.6% of land was farmed individually in 1993 (Bruckmeier and Grund 1994). In Slovakia, 75% of agricultural land was owned by individuals, i.e. by natural persons in 2003, but individual farmers farmed only 10.2% of this land. The rest was operated by co-operatives and business companies (Bandlerova and Marišová 2004).

In countries of the second group, the overwhelming majority of restituted land is farmed by individual farmers. This group comprises Romania, Bulgaria and Poland. The disintegration of large industrial companies resulted in the return of industrial labour to agriculture in these countries. Some choose to call this tendency 'peasantisation' (Starosta 1994), whereas others refer to it as post-traditional rurality (Buckmeier and Olegowna Kopytina 2001).

Hungary belongs to neither of these groups but can be placed in between the two. The reason for this intermediate position is mainly to be sought in the Hungarian model of creating private ownership of land.

Land Privatisation in Hungary

With the emergence of the multi-party system in Hungary, all parties agreed that the development of agriculture was to be based on private ownership, but opinions differed as to how this was to be realised. What is more, even ten years after the completion of the privatisation process agriculture policies continue to be hotly debated between the opposition and government parties. Among the parties voted into parliament at the first democratic elections, three parties had distinctive views on privatisation, all of which markedly differed from one another. The liberal Alliance of Free Democrats (SZDSZ) would have required interested parties to purchase land. Two groups would have enjoyed priority: those living from agriculture and one-time landowners. The moderate right-wing Hungarian Democratic Forum (MDF) sought to allot land to rural inhabitants at the time of the transition. The Independent Small-holders Party, a traditional peasant party resuscitated after the system change, called for re-privatisation, i.e. the restitution of land (and all other property) to those who were expropriated after the Communist seizure of power.

The first democratic government formed in 1990 included the Hungarian Democratic Forum (MDF), the Independent Small-holders Party (FKGP) and the

Christian Democratic People's Party (KDNP). Although the Hungarian Democratic Forum was the senior coalition member, when the government assumed power it seemed that the privatisation of land would take place in accordance with the conception of the Independent Small-holders Party. However, re-privatisation proved in the end only to be a general point of departure. In fact, re-privatisation was legislated and carried out in what turned out to be a very complicated framework.

Laws on the privatisation of agriculture were only passed in 1992. At the same time, agricultural subsidies were radically reduced. The scissors crisis of agriculture deepened dramatically, considerable amounts of capital were withdrawn from agriculture, and earnings and employment began to fall.

Table 15.1 Distribution of co-operative land property

Counties	Land of share-holders		20–30 golden crown land		Restituted land
	Number of owners	Area (hectares)	Number of owners	Area (hectares)	Area (hectares)
Baranya	40,149	89,114	20,816	34,095	66,190
Bács-Kiskun	154,299	243,045	44,931	86,010	144,021
Békés	94,399	137,166	29,719	26,024	178,538
Borsod-Abaúj-Zemplén	78,976	154,897	17,847	53,633	123,072
Csongrád	80,844	116,981	25,843	30,463	115,557
Fejér	54,902	103,457	11,621	12,555	94,955
Győr-Moson-Sopron	95,223	112,613	7,684	8,585	90,828
Hajdú-Bihar	133,429	190,049	–	23,057	133,615
Heves	67,314	97,300	23,436	34,111	65,615
Jász-Nagykun-Szolnok	77,397	125,517	24,169	40,806	173,406
Komárom-Esztergom	17,226	26,170	11,437	18,721	37,632
Nógrád	42,396	54,219	11,913	30,663	47,749
Pest	86,095	151,816	–	57,237	82,561
Somogy	63,849	130,174	25,050	45,312	79,775
Szabolcs-Szatmár-Bereg	168,465	166,252	69,612	107,313	102,591
Tolna	44,700	81,561	21,426	25,615	90,201
Vas	50,984	74,250	–	27,147	83,641
Veszprém	56,058	84,157	18,159	32,605	82,719
Zala	58,986	108,013	–	32,187	47,227
Total	1,465,691	2,246,751	363,663 ⁺	726,139	1,839,893

⁺ Due to missing data, the total does not contain data from four counties. This amounts in effect to about 420,000–450,000 people.

Source: Ministry of Agriculture in Kovács 1994. (Data provided by county land offices.)

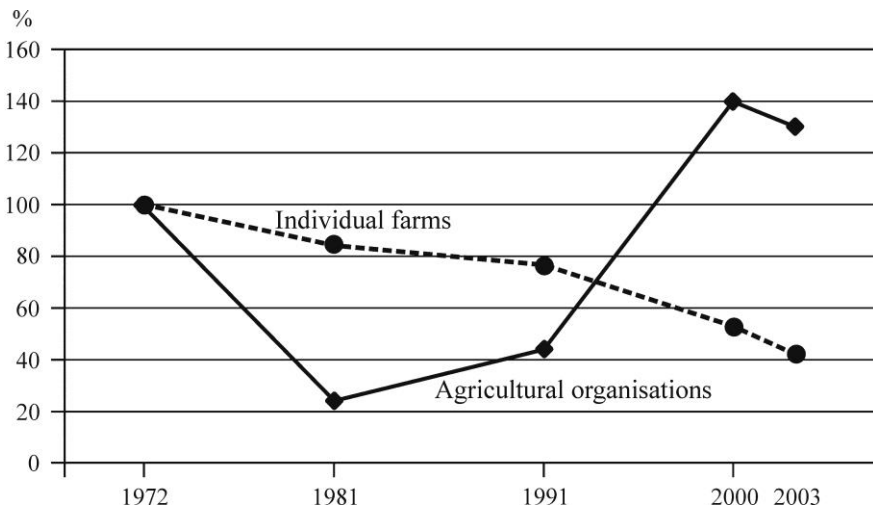
The former food economy – the integrated system of agricultural production and sales mutually complementing each other – was disrupted. Agricultural production found itself in ‘colonial dependency’ from private enterprises buying and storing their products in the trade sector, the food industry and supermarket chains (Ángyán *et al.* 2004).

State farms were sold. Prosperous state farms including manufacturing units were purchased by foreign investors. Many state farms were closed. Some of these, although not many, were bought by previous employers. Many agricultural co-operatives were closed down as well, replaced by smaller participatory limited companies (kft). Co-operatives that continued to function were also given a new status. Around 2000 many of them were turned into share corporations (rt).

The privatisation of land was carried out in a very complicated framework. In the case of co-operatives, land was divided among three groups: the actual holders of shared property, those receiving restitution and those receiving land in the value of 20–30 ‘golden crowns’.^{6, 7}

In Hungary, approximately 1.5 million people received land as holders of shared property, 0.5 million were given restituted land and another 0.5 million obtained 20–30 ‘golden crown’ land (Table 15.1). Since it was also possible for one and the same person to be entitled to receive land on several grounds, it is possible to say that 2–2.3 million people were involved in the privatisation of land nationwide. Another peculiarity of the Hungarian privatisation process is that those concerned did not get back their original property but received so-called ‘restitution vouchers’, i.e. vouchers the amount of which corresponded to the value of land to which these people were entitled. Many people sold their restitution vouchers. Alternatively, they used restitution vouchers to purchase land only to lease it out a little later.

Figure 15.1 Changes in the number of farms (1972 = 100.0)



Some, however, embarked on individual farming. The number of individual farms – called household plots or small farms in the socialist system – has decreased considerably in the last forty years (Figure 15.1). Decrease in the number of farmers holding land under 1 hectare has been particularly strong. By contrast, the number of farmers with larger plots of land, i.e. above 50 hectares, but also the number of farmers with 10–50 hectares has increased significantly and so has the share of land farmed by them.

The Beginnings of Market Economy

Taking 31 March 2000 as its stipulative starting point, the Central Statistical Office carried out a general survey of agriculture (ÁMÖ-2000). This survey distinguished two types of farms: agricultural organisations and individual farms.

Agricultural organisations are associate enterprises that function as the legal successors of former co-operatives and state farms. Most commonly, these agricultural organisations operate as share corporations, participatory limited companies, forest estates, contributory partnerships (betéti társaság) and co-operatives (the size of land managed by former co-operatives at the time of the 2000 survey was minimal, not exceeding 6%). The number of agricultural organisations grew rapidly between 1990 and 2000 (Figure 15.1).

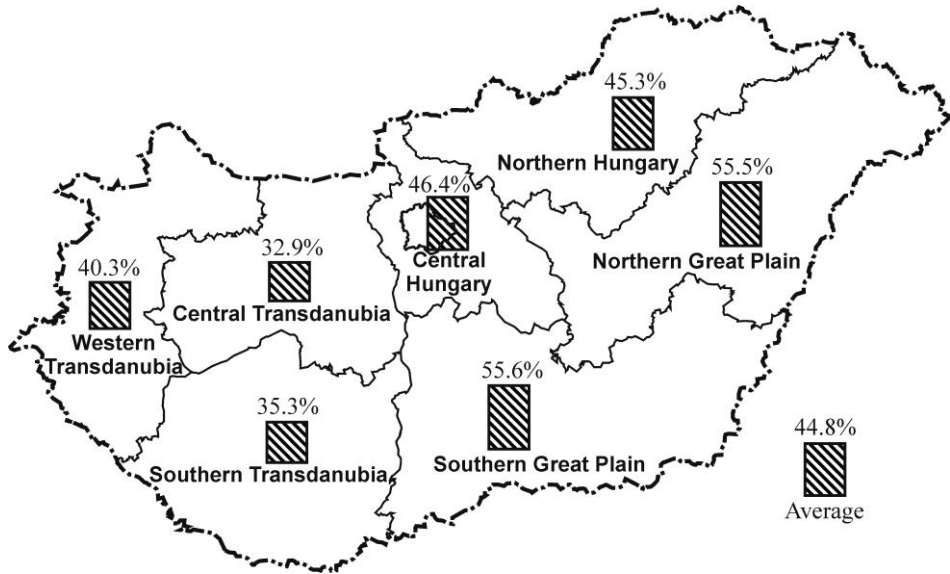
Agricultural organisations managed 3.6 million hectares of land. These are typically larger farms with an average holding of 663 hectares. Most of the land is leased since agricultural organisations cannot own land in Hungary (only private persons can do so with a maximum holding of 300 hectares/capita). It is quite common, however, for managements to own large areas of land. They are responsible for managing the farms, while physical work is carried out by the non-landowning members. An analysis of these organisations in terms of land size and use reveals that organisations above 10 hectares, accounting for only 0.8% of the total number, farm almost a third of all land belonging to agricultural organisations. A further 20% of agricultural organisations farm land between 1000-5000 hectares and are thus responsible for 43% of land belonging to agricultural organisations.

In 2000, 8400 agricultural organisations operated in Hungary. They managed 55% of arable land and looked after 53% of the total livestock. The remaining area is farmed by individual farmers who also keep the rest of the livestock as well.

Individual farmers include individual entrepreneurs with an official entrepreneurial certificate as well as households pursuing agricultural activities the holding of which reached the minimum prescribed size.⁸

The above mentioned ÁMÖ-2000 survey registered 960 thousand individual farms. They operated on 2.9 million hectares with an average land size of 2.7 hectares; 72% of individual farms hold land below 1 acre. These worked 7% of the total area of individually farmed land, i.e. at most 4% of the country's total arable land. In sum, the area held by such small farms is almost negligibly small. These are usually farmed by aged pensioners living in villages who pursue agricultural activities to earn some extra living and sometimes simply out of mere tradition.

Figure 15.2 Regional distribution of land farmed by individual farmers in 2000



Source: Land use in Hungary in 2000 – data by settlements – in Kovács (2001).

When they fall ill, get too old or pass away, nobody is there to replace them. The other extreme constitutes 1% of individual farms. They hold almost one-third of individually farmed land each on an average of more than 50 hectares. The share of farmers with holdings between 10-50 hectares is also small (4.4%). Nevertheless, they farmed about one-third of arable land. The share of individual farmers is highest in the Great Plain which was inhabited before the socialist system by landed peasants. It is smallest in the Transdanubia, where land was mostly divided into large estates before the introduction of socialism (Figure 15.2).

The Impact of EU Accession on Agriculture

A survey of farming structure was carried out in Hungary in 2003. This shows that three years sufficed for a markedly swift concentration of land ownership (Table 15.2). While the average farm size was 6.5 hectares in 2000, the same figure increased to 8.2 in 2003. For agricultural organisations the average size was 503.1 hectares and 3.3 hectares for individual farms.

It is quite possible that Hungary's EU accession will have a greater impact on agriculture than on other economic sectors. There will be both positive and negative effects: fewer people will make their living in agriculture but those who remain can look forward to increasing living standards.

The greatest share of subsidies for Hungarian farmers will be land-based. Land-based subsidies to be paid from the community budget will account for only 25% of the subsidies to the 15 EU-countries in the accession year. However, increasing each

year by 5% they will have reached the subsidy levels paid out to old member states by 2013. Nonetheless, land-based subsidies influenced the changing structure of production even before the accession in the following ways: in 2003, 72% of agricultural organisations were only involved in farming, whereas in 2000 this share fell to 43%. In comparison to 2000, the number of stock-raising individual farms decreased by almost 25%, the number of agricultural organisations by 11%. Especially farmers raising pigs and poultry found themselves in a difficult situation. However, cattle-raising farmers have also begun to experience difficulties as their production is no longer profitable. They are better off selling the wheat than feeding it to animals. The result is that fewer and fewer people make their living from agriculture. The number of those involved in farming as a subsidiary activity has gone back as well (and those who remain are getting older).

The greatest change, however, can be observed in the number of farmers. While there were 960 thousand individual farms in 2000, only 766 thousand were still in operation in 2003. This amounts to a decrease of almost 20%. This tendency affects smaller farms below 10 hectares, but especially those below 1 hectare. Simultaneously, the number of farmers farming larger holdings of land increased. The number of agricultural organisations, which had increased steadily since the system change, began to fall after 2000 as well. There were 7800 organisations pursuing agricultural activities in 2003, which amounts to a decrease of 7% in comparison to the state of affairs three years earlier. The size of land farmed by these organisations went back as well. This has the consequence that individual farmers, rather than agricultural organisations, are now responsible for farming over half of the total arable land (Table 15.2). The size of land managed by agricultural organisations decreased because individual farmers formerly leasing land to them now tend to reclaim their property and begin farming individually. They are not so much new farmers but rather those who have been already involved in farming previously now wanting to expand their activities.

Economic priorities of individual farms have changed as well (Table 15.3).

In both years, a large part (60%) of individual farms was found to produce only for its own needs. In comparison to three years before, the share of those who produced for their own consumption while also selling off production surpluses went back in 2003. At the same time, the share of those producing primarily for the markets increased. This holds true for the entire country with the exception of

Table 15.2 Size of land per farm (hectares/farm)

Category	Individual farms		Agricultural organisations	
	2000	2003	2000	2003
Ploughland	3.11	4.42	506.93	384.88
Meadows	2.86	4.12	161.20	146.72
Agricultural areas	2.51	3.10	533.49	384.11
Arable land	2.74	3.33	663.00	503.09

Source: Magyarország mezőgazdasága 2003 (Hungarian agriculture, 2003)

Table 15.3 The regional distribution of individual farms according to main type of activity

Region	2000				2003				Total	
	Producing for private consumption on only	Selling products above private consumption on	Producing to sell private consumption services	Provision of agricultural services	Total	Producing for private consumption on only	Selling products above private consumption on	Producing to sell private consumption services		
Central Hungary	69.33	23.80	6.62	0.25	100.0	66.57	25.53	7.83	0.07	100.0
Central Transdanubia	74.56	21.36	3.87	0.21	100.0	74.26	19.86	5.84	0.04	100.0
Western Transdanubia	60.80	29.89	9.09	0.22	100.0	69.87	22.12	7.95	0.05	100.0
Southern Transdanubia	66.54	27.25	6.05	0.16	100.0	68.59	23.71	7.68	0.02	100.0
Northern Hungary	68.36	22.87	8.58	0.19	100.0	62.10	21.27	16.59	0.04	100.0
Northern Great Plain	52.44	39.54	7.79	0.23	100.0	49.50	37.94	12.48	0.08	100.0
Southern Great Plain	50.12	38.99	10.60	0.29	100.0	48.76	35.73	15.44	0.07	100.0
Total	60.36	31.45	7.96	0.23	100.0	59.35	28.97	11.63	0.06	100.0

Source: Magyarország mezőgazdasága 2003 (Hungarian Agriculture, 2003), p. 23.

Western Transdanubia. In the country's Westernmost region, the share of individual farmers producing for markets decreased because here industrial and service sectors offer sources of income above the national average. The share of individual farmers producing for markets grew most significantly in Northern Hungary where unemployment is highest and employment the lowest. The Great Plain recorded a considerable increase as well. This permits the conclusion that in regions lacking more adequate sources of income agriculture will continue to play an important part even after accession to the European Union.

NOTES

* This study was written as part of the TO 43290 OTKA (National Scientific Research Fund) research programme.

¹ 100 cadastral holds=57 hectares.

² In addition, some state-owned land was managed by other ministries and administrative organisations as well. These were mainly forestry and timber companies.

³ Later, common stables, sties and other facilities were built but some livestock remained in the sties attached to private residential houses.

⁴ Mostly lower-quality ploughlands were classified as such. It is important to note that because increasing production, mainly that of wheat production, constituted the primary objective in the state-planned economy, many meadows were converted into ploughlands. Stock-raising was typical in many disadvantaged areas (before their conversion) as they could only be used for such purposes.

⁵ During the accession negotiations with the European Union, a standard yield of 4.73 tons/acre for wheat, oleaginous and protein plants was fixed for Hungary.

⁶ 1. Members who contributed their own land to the co-operative and worked their until 1992 (or were pensioned) and their descendants were classified as *holders of shared property*. 40% of co-operative land consisted of such holdings. Legally speaking, these lands were registered under the names of the former owners and thus they could be surveyed and subsequently farmed individually. The majority, however, chose to keep its property in the co-operative farm or leased it out to others. In such cases, no surveying of the land took place.

2. Former owners who contributed their own land to the co-operative but left it a later stage (as well as their descendants) were entitled to receive *restitution*. These one-time owners received 'restitution vouchers'. (Restitution vouchers were also received by the victims of political persecution under Communism.) Restitution vouchers could be used not only to purchase land but also any other property to be privatised (including the flats in which the recipients of the vouchers lived). Restitution lands were not assigned automatically, but were formally auctioned. The piece of land in question went to the highest offer of restitution vouchers. Many chose to sell their vouchers. The market price was typically at 80% of the nominal value. The buyers were often inhabitants of towns who purchased land as a form of investment and had no intention of farming it. The greatest demand for restitution was of course around large towns and holiday resort areas (as these seemed to constitute the best investment opportunities). Meanwhile, there was considerable demand

on the Great Plain as well where individual peasant farming had a greater tradition than elsewhere both before 1945 and during the socialist system as well (Figure 15.2).

3. The first democratically-elected government sought to avoid confrontation between former co-operative members, on the one hand, and members and employees who were working in agriculture in 1992 but were not entitled to land on the above grounds, on the other. For this reason, *members received land in the value of 30 'golden crowns' and employees in the value of 20 'golden crowns'*. Employees of state farms also received land in the value of 20 'golden crowns'. If the member or employee of a co-operative did hold restitution vouchers or possessed land as shared property but below the limit mentioned above, he or she was entitled to the difference. In short, every member of a co-operative working in agriculture was entitled to land in the value of 30 'golden crowns', and every employee in the value of 20 'golden crowns'. Those who acquired land in this way tended to sell or lease out their property. This group was the least likely to embark on individual farming.

⁷ 'Golden crown' is a unit to represent the value of land. As the pertaining 1875 law specified, in the course of the cadastral registration the net yield of land was specified in terms of the currency of the time (golden crowns). Golden crown values have been repeatedly altered. With the passing of time they could only provide a rough indication of the actual value or yield of a piece of land or of the differences in quality among various pieces of land. In the absence of a more accurate system of assessment, the 'golden crown' value is still in use at the end of the twentieth century. An average plot of ploughland is worth 20 'golden crowns'.

⁸ 'Farm: a technically and economically independent productive unit pursuing agricultural activities which:

as of 31 March 2000 used

- arable land (ploughland, garden, orchard, vineyard, meadow, pasture, forest, reed, fishpond separately or in combination) of at least 1500m², or
- an area for orchards or vineyards separately or in combination amounting to at least 500m², or

as of 31 March 2000 had an agricultural livestock of

- one larger living animal (cattle, pig, horse, sheep, goat, buffalo),
- 50 items of poultry (hen, goose, duck, turkey, guinea fowl) together or separately,
- 25-25 rabbits, fur-bearing animal, pigeon, or
- five beehives, or

during 12 months prior to the survey

- was involved in agricultural services, or
- pursued intensive gardening production (e.g. greenhouse, plastic house).'

Source: Hungarian agriculture in 2000 – regional data – Budapest, 2000, KSH. 543.

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PART III

Social Trends in Transition

Socially Excluded Groups in Hungary and a Special Re-integration Programme

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Introduction

Poverty, social exclusion, regional inequalities – these notions are hardly new to Hungarian society. They have received, however, a new emphasis in the political discourse of the last decades. At the dawn of the system change, politicians and social scientists hoped that problems hushed up during state socialism would be adequately addressed and alleviated and a way for the re-integration of the most disadvantaged would be found. Our hypothesis is that this endeavour has so far yielded only partial and uneven results. To prove this, we will review the changes affecting socially excluded groups and the role of territorial disparities in these processes. Passive and active measures and programmes of social policy were developed in Hungary only after the political changes. One of these can be regarded as a uniquely Hungarian experiment, the so-called ‘social land programme’, the aim of which is to foster the re-integration of the population of rural areas hit by long-term unemployment. Our analysis will give special attention to the results of this programme and how effective it proved as a social policy instrument for this particular target group.

Characteristics of poverty afflicting peripheral groups in different societies are as varied as are the societies themselves in which they occur. According to some Western analysts (cf. Wilson 1987), the poor form a relatively homogeneous group in which dominant attitudes are passed on from one generation to the other. The members of the group share the plight of economic and spatial segregation that defines their special status in the social hierarchy. Others (Heath 1992; Gallie 1994 cited by Dománski 2001) claim on the basis of empirical research that the underclass is a heterogeneous and changing category of classification rather than a group with a culture and identity of its own. Some Western European researchers (Wilson 1987; Runciman 1990; Smith 1992) identify marginalisation as the first step towards social

exclusion, the symptoms of which are spatial concentration, long-term exclusion from the labour market and financial hardship.

Marginalisation and drifting apart from society's mainstream are not unique features specific either to countries traditionally considered poor or to those located in Eastern Europe (Ferge 2000). Much rather, these have been acute social problems in most parts of the world including more developed parts of Europe for more than a decade. New terms and expressions have been invented to refer to these phenomena in a more adequate fashion. The process of exclusion and the plight of the social groups affected are characterised as 'objective-relative deprivation' in the UK, 'new poverty' and 'fragile security' in France, and 'underclass' in the United States. Notions such as 'marginalisation', 'drifting toward the periphery', and 'social inclusion/exclusion' seek to capture the dynamic aspect of the problem. In Hungary, system change fundamentally altered the conditions of research on poverty. Only two and a half decades after the shock of discovering poverty moved Western European countries to a thoroughgoing reform of their welfare systems did poverty qualify to be so much as an adequate subject-matter for public discussions in Hungary (Szalai 2002). Most Western European countries joined a common Europe in the understanding that without reforming their social policies it would be impossible to develop institutional frameworks capable of dealing effectively with poverty. By contrast, even national welfare policies are yet to be developed in the new post-communist member states. This delay of several decades in Eastern Europe is not merely a political or technical problem. There is something more at stake: a general awareness of fundamental social risks is missing.

Western and Eastern European Phenomena

Before addressing specific features of poor and excluded groups of post-communist Hungary, it is worth looking at processes that took place in the European Union and to review landmarks of relevant community policies. We will do so by drawing mainly on Ferge's research work (Ferge 2002).

The Treaty establishing the European Economic Community included twelve articles with social content. These concerned mostly employed and economically active segments of society (in areas such as labour law, labour conditions, social insurance and safety at work). The whole field of social policy was at the time subsumed under the principle of subsidiarity. The 1972 Paris Summit and the reforms introduced during Jacques Delors' presidency of the Commission were the next major steps forward as a result of which the First Community Poverty Programme (1975–80) was launched in 1975. The most important impact of the programme was a general recognition of the problems of long-term unemployment and the growing poverty of families. The Second Community Poverty Programme (1985–88) emphasised the importance of fighting poverty and the significance of positive social policy measures to help disadvantaged groups. Close to a hundred projects were launched to support rural and urban unemployed youth, the elderly, single parents, homeless people and migrants. While carrying out the programme, it became obvious that new forms of poverty, marginalisation and exclusion were

present in all Western European countries, partly as a consequence of new social structures that emerged in response to globalisation. The Third Poverty Programme, launched somewhat later on the basis of the lessons drawn from the first two, concentrated primarily on social exclusion. Between 1989 and 1994, 42 projects were carried out within the framework of the programme. The principles of partnership, subsidiarity and a multi-dimensional approach were the three major guidelines followed throughout the programme, which had much clearer focus than the first two. A Fourth Poverty Programme has not been started as several Member States found the costs too high. The process did not stop, however. The experience gained in the course of implementing these programmes generated new steps and measures. The Council of Europe set the 'Human Dignity and Social Exclusion Project' as one of its central activities for the period 1996–99 (Duffy 1995). In the Social Chapter of the 1997 Amsterdam Treaty, combating social exclusion was defined as one of the primary objectives. Since 1998, policy statements of the European Union reflect a new approach. They are not concerned primarily with social exclusion, but rather the task of building a strongly cohesive society. An important landmark in the fight against social exclusion was the document adopted in 2001 by the European Commission. This prescribes the content and other parameters of national plans and action programmes which Member States are required to develop in order to promote and strengthen social cohesion. The main chapters of the document focus on income, education and training, employment, health and housing. It is very likely that its scope will be further extended to address issues such as communication, access to services and social participation (also including internet-access).

What happened in the meantime, we may ask, in the Eastern half of Europe? In order to give a comprehensive answer to this question, we need to refer to empirical studies. At the turn of the millennium, Iván Szelényi¹ and his team conducted an Eastern European comparative research programme on manifestations of poverty in different post-communist structures (Mitev 2001). Using comparative data, researchers sought to determine the concentration of poverty in certain types of settlements and ethnic groups, while also investigating the extent to which long-term unemployment can be seen as the cause of poverty.

Social and biological factors (such as gender and age) were shown to affect inequality and disadvantages according to patterns partly different from those prevailing in Western Europe. One of the differences is that, in almost every Eastern European country involved in the research, women proved to be endangered by poverty to a larger degree than men. This was found to hold true particularly for single mothers, those with two or more children, and divorced women. Urban elderly people and ethnic minorities were shown to belong to risk groups as well.

The underclass is characterised by long-term deprivation, spatial segregation and the reproduction of social status. Re-introduction of the capitalist economic system in Eastern European countries turned age into a crucial feature of the underclass. In countries with well-established social systems, ageing has predominantly positive social consequences such as growing income and savings, or a retirement pension that itself guarantees a considerable level of security. This model is not applicable in post-communist countries. High inflation characteristic of the years of economic

transition dramatically undercut the value of savings. Educational and employment status prior to retirement are not reflected by pension rates. In other words, ageing entails all biological disadvantages without the social and economic benefits elderly people normally enjoy in other societies.

Ethnic differentiation was also rapid and dramatic after the collapse of state socialism. Already in the communist era, the living standards of the Roma were significantly lower than those of the majority population. According to the results of the comparative Eastern European research programme already cited, the primary cause of growing poverty among the Roma is their exceptionally high unemployment rate. Data have shown that low level of education in itself does not explain the extreme rate of unemployment. In three of the countries involved in the survey (Bulgaria, Romania and Hungary), the Roma who identify themselves with the ethnic majority are significantly wealthier than those who declare themselves to be Roma.

These findings enable us to conclude that a new type of poverty has emerged in Eastern Europe which is not essentially linked to the life-cycle. Instead, it is a process that increasingly affects – although to a different extent from one country to another – certain groups of society. New and unexpected phenomena have appeared such as the deprivation of the old, especially in South Eastern Europe and Russia. With the sole exception of Poland, there are signs and symptoms that women are more endangered by poverty than men. Ethnicity, however, remains the strongest poverty risk factor.

Social Exclusion in Hungary

The notion of social exclusion has been used and studied in Hungary only since the system change beginning with 1990. Before that time poverty was officially considered to be non-existent in Hungary and the notion of social exclusion was not in currency. In state socialism, those living on the periphery of society were labelled as multiply disadvantaged and anti-social. Their own deviant behaviour was diagnosed as the sole cause of their plight (Szalai 2002). One of the important consequences of hiding poverty was that social scientists did not even possess the language and conceptual framework to handle phenomena that so dramatically surfaced after political system change.

The transitional period brought deep social and economic crises. The main symptoms of these included a sharp drop in standards of living, the loss of several hundred thousand jobs and vanishing existential security for the majority of society. Changes in macro-economic indicators, as shown in Table 16.1, illustrate the unfolding of social and economic processes after 1990 including the period of crisis as well as that of subsequent recovery.

Spatial inequalities are reflected in the human development index (HDI), which is a complex of three components:

- life expectancy at birth;

Table 16.1 Main macro-economic indicators, 1990–2001

	Real GDP growth	Private consumption	Fixed capital investment	Export of goods and services	Import of goods and services	Consumer price index (average)	Real net wages	Unemployment rate (yearly average)
1990	-3.5	3.6	-7.1	-5.3	-4.3	28.9	-3.7	1.5
1991	-11.9	-5.9	-10.4	-13.9	-6.3	35.0	-7.0	6.8
1992	-3.1	0.0	-2.6	2.1	0.2	23.0	-1.4	9.3
1993	-0.6	1.9	2.0	-10.1	12.6	22.5	-3.9	11.3
1994	2.9	-0.2	12.5	13.7	5.7	18.8	5.2	10.2
1995	1.5	-7.1	-4.3	13.4	-0.7	28.2	-12.2	9.5
1996	1.3	-3.4	6.7	7.4	5.7	23.6	-5.0	9.2
1997	4.6	1.7	9.2	26.4	24.6	18.3	4.9	8.7
1998	4.9	4.9	13.3	16.7	22.8	14.3	3.6	7.8
1999	4.4	4.6	5.9	13.1	12.3	10.0	2.5	7.0
2000	5.2	4.1	7.7	21.8	21.1	9.8	1.5	6.4
2001	3.8	4.0	3.1	9.1	6.3	9.2	6.4	5.7

Source: Central Statistical Office, cited in Fóti, Klára (ed.) *Towards Alleviating Human Poverty*, Human Development Report, Hungary, 2000–2002. MTA Világgazdasági Kutatóintézet, United Nations Development Programme, Budapest, 2003

- educational attainment, which is measured in terms of adult literacy and the proportion of those who complete their primary, secondary and higher education;
- standards of living, measured in terms of per capita GDP on a purchasing power parity basis.

County and regional HDI values are shown in Table 16.2.

In the five or six years immediately following the system change, impoverishment, affecting 50–70% of the population, dominated the ongoing discourse on poverty. Deep poverty, i.e. the situation of those who had been at the periphery of society already in the state socialist era, slipped out of focus. Before 1990, it was forbidden to talk about these people. After 1990, other phenomena distracted the attention they would have deserved.

During this transitional period, economic stabilisation was the main concern of political leaders of the country. Uncovering the causes of poverty and finding remedies were given low priority. In the five-six years that followed the economic shock of 1990-1, the country's economy stabilised, and large segments of society hit by sudden impoverishment recovered. However, groups living in deep poverty benefited next to nothing from these positive processes in the economy. It did not bring too much relief that researchers – making up for the delay – gathered a great deal of information about them or that a new Social Act was adopted in 1993 and a significant number of trained specialists emerged in the social domain.

Table 16.2 Human development indices by county and region in 1999

County, region	Population in thousands (2000)	HDI 99*	Life expectancy at birth (year)	Literacy (%)	Combined education index (%)	Per capita GDP (PPP, USD)
Budapest	1812	0.866	71.6	99.7	80.3	20400
Pest	1033	0.790	70.2	99.0	63.3	8700
Central Hungary	2844	0.838				
Fejér	426	0.821	70.7	99.5	70.5	12200
Komárom-Esztergom	310	0.805	70.4	99.5	73.4	8900
Veszprém	373	0.805	71.4	99.6	70.7	8500
Central Transdanubia	1108	0.812				
Győr-Moson-Sopron	424	0.841	72.1	99.7	74.2	14000
Vas	266	0.823	70.5	99.6	71.3	12600
Zala	293	0.813	70.7	99.5	75.2	9600
Western Transdanubia	983	0.827				
Baranya	401	0.798	70.0	99.3	72.7	8300
Somogy	330	0.789	70.2	98.9	71.2	7400
Tolna	244	0.805	70.1	98.6	73.8	9500
Southern Transdanubia	975	0.797				
Borsod-Abaúj-Zemplén	730	0.788	69.6	98.8	75.2	7200
Heves	323	0.800	70.8	99.2	75.4	7700
Nógrád	217	0.776	70.2	98.7	71.2	5900
North Hungary	1269	0.790				
Hajdú-Bihar	542	0.797	70.6	99.1	73.7	7700
Jász-Nagykun-Szolnok	412	0.789	69.7	98.8	75.1	7200
Szabolcs-Szatmár-Bereg	570	0.773	69.3	98.9	72.0	5900
Northern Great Plain	1523	0.786				
Bács-Kiskun	532	0.796	70.7	99.1	73.2	7500
Békés	392	0.796	70.8	99.5	73.8	7300
Csongrád	418	0.815	70.8	99.5	78.7	9200
Southern Great Plain	1341	0.802				
Hungary	10043	0.817	70.6	99.3	75.0	10700

HDI values for regions are averages of the counties concerned weighed by population. *Source:* Central Statistical Office, cited in Fóti, Klára (ed.) Towards Alleviating Human Poverty, Human Development Report, Hungary, 2000–2002. MTA Világgazdasági Kutatóintézet, United Nations Development Programme, Budapest, 2003.

Specific groups of society that suffer most from social exclusion are yet to be identified (Szalai 2002).

Social exclusion is closely associated with multiple poverty, which is a special type of poverty. It is important to remember in this connection that poverty is a many-faceted condition. The poor struggling with different kinds of poverty occupy

different positions within society, and correspondingly, their chances of improving their situation is different too. The pertaining literature distinguishes between temporary² and permanent poverty³, on the one hand, and between income poverty and multiple poverty, on the other. The latter is also referred to as deep poverty and the people affected are often referred to as constituting 'excluded' or 'split-off' segments of society. Re-integration of the income poor can be achieved by financial means. The problem of excluded groups is graver since for them poverty became a way of life, i.e. poverty dominates all aspects of their lives.

The first group consists mainly of underpaid single active workers, parents with reduced livelihoods, blue-collar workers and less frequently white-collar employees as well as elderly people, mostly urban residents, with minimal retirement pensions. They have become poor as a consequence of the high inflation rate and the devaluation of social insurance services in the wake of the system change. As far as their living environment and the schooling of their children are concerned, these people can still be said to belong to the majority.

The excluded segments, in contrast, are completely split off from society's mainstream. Their state of poverty was not caused by the system change, but frequently go back for many decades. Their social interactions are very limited encompassing only those with whom they share the same status. They inhabit urban slums, run-down housing estates, burgled and illegally used flats, and isolated and decrepit farmsteads. Some of them inhabit institutions specialised to look after them, others live outside. Their children usually attend auxiliary schools with special curricula for the mentally handicapped. They buy, if they can, what is necessary for their subsistence at special food stores with discount prices using food vouchers received from local councils. They fill the ranks of the defenceless workforce employed on the semi-legal labour market. In the state socialist era, members of such families constituted the bulk of commuters and those employed as unskilled workers in building and heavy industries. After 1990, when altogether 1.5 million workplaces were lost, practically 100% of this group was left unemployed. Losing their jobs entailed for these people the loss of their access to social and educational services and institutions at the same time. The majority of the homeless in large towns come from this segment of society as well.

Exclusion has affected other groups as well. These include persons who left various state institutions where they had previously lived without social contacts such as leavers of orphanages and hospitals after an extended stay and those released from prison.

Multiple poverty afflicts a massive group of about 1.1 million people in Hungary. Adding to this the estimated number of 60-80 thousand homeless and the poor living in various institutions, the share of the socially excluded adds up to 12-13% of the total population.

The demographic profile of the group of the deep poor is dominated by elderly singles. One-third of the deep poor live in families where the household head is 70 years old or older. Every fifth Hungarian child belongs to the segment of the deep poor. These figures underline the fact that large family size increases the risk of exclusion. The majority of the under-18 deep poor live in families with several

children. In the vast majority of excluded families the household head is unemployed and has only primary education or less. Half of these households lack running water and bathroom. Two-thirds of the homes of the excluded can be regarded as unhealthy. More than 50% of the expenditure of excluded families is spent on food. Another 20% is spent on housing. There are very little, if any, resources left to cover expenses related to clothing, furnishing, culture and entertainment. The children of excluded families are deprived of opportunities to advance to higher levels of education, which is a major factor in the reproduction of exclusion. Every twentieth excluded household has at least one permanently ill member.

Exclusion has two additional risk factors unrelated to individual fate or family background, but equally responsible for generating deep poverty, namely territorial disparity and ethnicity. The former is directly relevant to the topic of the second half of this paper.

Before 1990, geographical location did not have a crucial impact on the risk of poverty. Two years after the system change, poverty rate in small villages was only double that in Budapest. By 1998, inequality had grown tenfold in this respect (Spéder 2002). Nowadays there are enormous differences to be found among inhabitants of different settlement types as the following data reveal (Table 16.3).

The risk of poverty is smallest in the capital and Transdanubia, and biggest in villages in Eastern parts of the country. The permanently poor tend to live in villages and small towns, primarily in the relatively underdeveloped North-Eastern regions. Their share is low in Budapest and Transdanubia.

In peripheral areas, the situation has not improved much since the system change. Spatial disadvantages have not been significantly reduced. Territorial disparities constitute a so-called 'collective disadvantage' for the socially excluded (Szalai

Table 16.3 The risk of multiple poverty by settlement type and location

Settlement type and region	Risk of multiple poverty
Budapest	0.52
County seats in Transdanubia	0.62
Towns in Transdanubia and Pest county	0.88
Agglomeration villages in Transdanubia and Pest county	0.38
Villages in Transdanubia and Pest county	0.99
County seats in the regions of Northern Hungary and Northern Great Plain	0.96
Towns in the regions of Northern Hungary and Northern Great Plain	1.52
Agglomeration villages in the regions of Northern Hungary and Northern Great Plain	1.35
Villages in the regions of Northern Hungary and Northern Great Plain	1.74

Source: Central Statistical Office, cited in Fóti, Klára (ed.) Towards Alleviating Human Poverty, Human Development Report, Hungary, 2000–2002. MTA Világgazdasági Kutatóintézet, United Nations Development Programme, Budapest, 2003.

2002). There are two main factors that explain sharp differences between villages and bigger towns: first, forced industrialisation; and second, a deliberate policy of stifling the growth of certain areas, and in particular those of borderland regions, during the decades of state socialism. The subordination of economic policy to ideological concerns was an important characteristic of state socialism. From the 1950s, rapid industrialisation was identified as the chief objective of economic development and as a result priority was given to mining, the energy sector and heavy industries (Dövényi 2003). Forced industrialisation was mainly of an extensive sort. As no comprehensive restructuring was carried out, traditional structures were conserved in industrial areas. Consequently, their long-term vulnerability to changes of market conditions increased. Low industrial productivity rendered it impossible to accumulate resources for the purposes of adequate infrastructural developments and the reduction of regional disparities (Bartke 2003). The 1000 kilometres long iron curtain along the Austrian and the Yugoslavian borders seriously interfered with the settlement structure. This political measure hampered or in some cases completely undermined economic development of settlements in borderland areas for many decades. This and other restrictive measures had significant negative effects on prospects of the population in these settlements which in turn resulted in massive internal emigration from borderland areas along these two borders (Dövényi 2003).

Economic and social transformations starting in 1945 and reaching a peak in the 1970s generated significant infrastructural disparities. These had important consequences on the labour market positions of the active population living in different areas, largely determining their income prospects as well. Living in infrastructurally underdeveloped areas hindered social integration of the population groups concerned and reduced their ability to influence political and economic processes. Developments following the system change in 1990 completely undercut the chances of inhabitants of small and/or disadvantaged settlements to escape deep poverty. These areas were hit by massive unemployment. Access to essential public services such as education and adequate health care is limited, especially in small settlements. The rapid devaluation of real estates in remote and inaccessible small villages and depressed former industrial regions reduced to almost zero the mobility of people living there.

In addition to spatial inequalities, the other main collective factor contributing to pauperisation is ethnicity. Two-thirds of the Hungarian Roma population struggle with ethnically-rooted poverty. Ethnic poverty and territorial disadvantages are strongly interrelated. The most excluded group of the society is the Roma population of scattered small villages and former heavy industrial centres hit by large-scale unemployment. Prior to the system change – although the communist government's forced assimilation policy was no doubt highly objectionable – catching up with society's mainstream seemed at least to some extent feasible (Szalai 2002). The Roma had access to schooling, professional training, work, and, in many cases, housing too. As a result, in the 1980s, taking children to school, acquiring professional qualifications and family planning became established norms for a significant share of the Roma population.

The system change put an end to this positive trend. In the early 1990s, amidst dramatic impoverishment and existential insecurity of many people, the Roma often served as scapegoats. In a significant proportion of society, sentiments to keep the Roma excluded still persist covertly or even overtly. The struggle between the Roma and the non-Roma for the limited social benefits apportioned by local councils of disadvantaged settlements has been increasingly intense.

Telling figures illustrate the extent of ethnic exclusion afflicting Hungarian Roma. The poverty rate of the Roma doubles that of the non-Roma. The proportion of the permanently poor among the Roma is ten times higher than it is among the majority. There is only one in every five Roma who has never been poor at least for some time of their life (Spéder 2002).

Among all excluded social groups, it is the Roma for whom re-integration into society's mainstream appears to be the most problematic. Opportunities open to those in search of employment in a rapidly changing and increasingly selective labour market are usually beyond their reach. This is partly because they are under-educated, and partly because they are ethnically discriminated. Their employment figures vary largely by region, settlement-type and gender (Kemény and Janky 2003). In the regions of Northern Hungary and the Northern Great Plain – Hungary's Easternmost regions – the Roma are in a much worse situation than anywhere else in the country. Whereas in Budapest half of the adult Roma have a job, in Southern Transdanubia only 30% and in the Eastern regions only one in seven are employed. The activity rate of women is much lower than that of men in all regions. Data over time show that after a temporary loss of workplaces new opportunities have opened up for the Roma in the capital. Elsewhere, however, their employment figures have been steadily worsening, in towns relatively mildly, in villages drastically. The Roma living in segregated neighbourhoods have been shown to have much worse employment prospects than those who live together with the majority population.

Re-integration Opportunities

In the remaining section of the paper, we are going to present a model that proved to be a useful measure of social policy to promote the re-integration of excluded rural groups in Hungary.

Social and economic changes in the wake of the system change placed an excessive burden on institutions in charge of social policy. For the reasons mentioned above, the institutional framework was not prepared to deal with problems of such magnitude. In addition to the inactive segment of the population, large groups of economically active people found themselves in a situation that called for substantial state intervention. Besides passive subsidies for those in need, active measures of social policy became more and more important. Among these, the social land programme has been one of the most significant (Serafin 2001). Programmes of this or similar kind look back to a tradition of several decades in Hungary. Moreover, similar initiatives of social policy had been experimented with already in the late 19th century as well as in the 1930s.

The unemployment crisis of the early 1990s affected mostly rural, peripheral areas with underdeveloped infrastructure. The crisis found local and regional players unprepared. The central institutional framework was inadequate and resources scarce. It became clear to decision makers that providing financial aid for the inactive is not enough, social problems among the economically active needed to be addressed as well. This was the context in which the social land programme was launched in the early 1990s building largely on the existing historical tradition of similar initiatives in the past. The programme became popular mainly in three regions: Northern Hungary, the Northern Great Plain, and in Southern Transdanubia, regions concentrating socially excluded groups in high numbers.

What are the main objectives of the social land programme? The programme was designed to help disadvantaged families, who own little or no property, to start agricultural production and stock breeding on a small, household scale. Participants of the programme receive services at reduced prices as well as other benefits from the state. Individual, local community and settlement resources are also mobilised. The Social Act specified that support for participants in this programme is to be regarded as contribution-in-kind. However, whereas contribution-in-kind comprises in most cases single acts of assistance or at most a series of interventions confined to a limited number of occasions, an essential feature of the social land programme is its continuity (Szoboszlai 2001a). This feature is vital for people in crisis as they have been excluded from the labour market for a longer period of time. The aim of the programme is to assist participating families in generating their own livelihood without being dependent on public aid. The most important accomplishment of the programme is that participants add their own work to everything produced with the assistance of the programme. Research results clearly show⁴ that the majority of participating families have worked and used their minimal material resources more effectively within the framework of the social land programme than they would have done outside this programme (Szoboszlai 2001b).

Every second beneficiary family of the social land programme is of Roma origin. Roma families typically enter the programme without any workable land, not even a plot around the house, and are thereby not equipped for agricultural production of any sort. The programme, in addition to providing elementary material conditions of agricultural production, makes it possible for them to acquire the required know-how as well. Formerly, the costs of the programme prohibitively overburdened the family budget for many participating families. This has changed later on. Although income generated through participation in the programme does not fully cover the financial needs of families, it is financially better and more motivating than passive social support.

The nature of the programme is well illustrated by the following list of requirements that the Ministry of Social Affairs, in charge of overall supervision of the programme, expects programme managers to meet:

- Since social land programmes are active tools of social policy, they have to be operated as integral elements of social policies pursued by the given local council. Therefore, they are to be operated on the basis of local council decrees.

- Local councils are in the first place responsible for the management of the programme, but they may co-operate with other local organisations.
- The beneficiary subject of the programme is always an individual family household.
- The benefits provided by the programme are to be made available on a basis of social need. A written contract between the beneficiary and the agency running the programme is also necessary.
- Production within the framework of the programme should be based primarily on the beneficiary's own labour force; use of machines and chemicals should be kept at a minimum.
- Continual assistance should be made available to the beneficiaries.
- The programme should aim at helping participating families to overcome dependency on aid by virtue of purposeful employment of their skills and abilities (Szoboszlai, 2001a).

To ensure the proper operation of the programme, the managing agency sets specific regulations also taking local conditions into consideration. Participating families have access to tools and services they may need for their economic activity at a lowered cost or altogether free of charge. Social land programmes, in addition to their immediate results, have important indirect effects as well. They can increase the extent to which beneficiary families can move towards self-sustainability. In areas where agricultural production is among traditional economic activities of the local population, the programme may facilitate co-operation and integration into existing production networks. Cohesion of local communities can be enhanced. In sum, not only participating families benefit from the programme, but local society as a whole too.

Unemployment is a crucial factor of social exclusion. Social land programmes have a significant impact on employment, although participants are usually not formally employed. In this respect, their status is a form of self-employment. The programme, however, also generates workplaces and employment through the administration of the programme and through services made available to participants. Guidelines for the programme include the requirement that every co-ordinator has to be a resident of the local community. The programme has a positive effect on labour market prospects of participants, among others, by re-activating them as workforce through their involvement in agricultural production. Families with financial means slightly above the average of participants have a good chance of bringing their own products to the market on a regular basis. This is a big step towards self-sustainability. Later on, they may even be able to do so without the assistance provided by the programme. On the whole, the significance of the programme as regards employment prospects consists primarily in re-integrating participants into the labour market and by giving them a chance to regard themselves as productive members of society once again.

During its ten years of operation, the social land programme has become an effective means of social policy operated at local and regional levels and supported by expert monitoring. At present, the programme constitutes an integral part of regional development strategies and planning documents at different levels of public

administration and regional planning. It is included in the National Regional Development Plan as a socially-oriented sectoral programme, plays an important role in rural development policies and is also incorporated into minority policies, such as Roma integration programmes.

The operation of the programme shows significant differences depending on the character of settlements involved. Local social land programmes can be sorted into four main types:

- developing-innovative
- developing-adaptive
- sustainable-stagnating
- declining (Szoboszlai 2001b).

Social effectiveness was the greatest in the case of developing-innovative and developing-adaptive programmes.

The main characteristics of the developing-innovative type are the following:

- adoption and development of agricultural technologies previously not utilised in the settlements in question,
- certain market segments become dominant in the course of the programme,
- self-sustainability – or the development of capabilities required for self-sustainability – as a focal point of the programme,
- priority of components related to quality and effectiveness,
- outstanding social effectiveness.

Developing-adaptive programmes can be characterised by

- dominance of quantitative growth and self-sustaining production,
- dependence on the support provided by the programme,
- development driven by the adoption of methods and innovations already tested in other programmes,
- significant social effectiveness (Szoboszlai 2001b).

Social land programmes proved successful in helping the re-integration of socially excluded groups. Typical results and achievements are the following:

- Local social policies are supplemented by a new, transparent and active instrument.
- Socially excluded groups receive valuable help in re-integration.
- Given that it is geared primarily towards production, the programme's acceptance is higher in local communities than that of passive aid.
- As a result of continuous labour, the psychological burden of long-term unemployment is significantly alleviated.
- Labour skills are maintained which is an important precondition of successful re-entry into the labour market.
- Communication is improved among inhabitants of the settlements involved, human relationships are enhanced.
- Pressure to migrate due to lack of local prospects is reduced.
- Formerly unused human and natural resources are mobilised.
- Crime rates decrease in settlements involved in the programme.

NOTES

- ¹ The international research programme, on which the present analysis is based, was conducted in the framework of a research project, led by Iván Szelényi, entitled 'Poverty, Ethnicity and Gender in Eastern Europe in the Period of Transition to Market Economy' in six European countries of the former Eastern Bloc (Bulgaria, Poland, Hungary, Russia, Romania and Slovakia) in 1999-2000.
- ² The temporary poor are predominantly income/subsistence poor. Once their income improves, their lives usually return to normalcy. Moving back from the social periphery, they are able to reoccupy their positions and roles in majority society (Szalai 2002).
- ³ The permanently poor constitute a layer of Hungarian society that lives in deep, often extreme poverty (Szalai 2002). Their re-integration is possible only through complex and well-organised programmes administered by the state.
- ⁴ The Szolnok Research Group of the Great Plain Regional Institute of the Centre for Regional Studies (Hungarian Academy of Sciences) studied households participating in the programme.

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Increasingly Fossilised Labour Market Structures and Strategies of Livelihood: Chances of Disadvantaged Groups in the Labour Market

Monika Mária Váradi

Introduction

The sense of security that full employment once provided vanished into thin air with dramatic speed under market economy conditions, and, although as the economy recovered and thus steadily diminished the unemployment rate¹, there evolved enduring inequalities in the labour market. Economic and labour market recovery varied from one region to the next. The divide between developed and lagging regions had widened into a gulf by the turn of the millennium. Regional, economic and labour market disadvantages are interrelated and reinforce each other. Crisis regions are hit by serious mass unemployment and deep poverty, and those living in such regions hardly stand a chance of entering or re-entering the primary labour market. The underlying reason for labour market inequalities is that, with economic restructuring under way and general education level on the rise, demand for low-level skills and low-productivity labour has been falling, irrespective of regional dimensions. Thus, groups with poor schooling, unmarketable skills, specialist knowledge or expertise and/or working-age groups of persons of more advanced age are irrevocably crowded out from the labour market. The provision of equal opportunities for these groups and their (re)integration into the labour market and the society are the two toughest challenges facing employment and social policy in Hungary.

Relying on the findings² of an empirical study conducted in two micro-regions, which are disadvantaged from a social, economic and labour market perspective, this paper seeks to provide an answer to the question as to whether or not the requirement of equal labour market opportunities can be transposed into employment policy in rural Hungary, and if so, to what extent. It further seeks to identify the structural impediments to the provision of equal opportunities.

Interpretational Framework of Equal Opportunities

The EU Context: Labour Market Participation and Social Exclusion

The issue of equal opportunities in the labour market in Hungary, where switch-over to a market economy occurred a mere 15 years ago, was placed in a European context during the accession process. Hungary has joined a community whose member states worked out, as part of the Luxembourg process, a new *European Employment Strategy*³ in order to remove the disadvantages that the Union had suffered in global competition and to combat egregiously high unemployment. The objectives that the directives and guidelines of the Strategy set forth include the raising of employment rates and the establishment of a flexible competitive economy and an open labour market. In respect of its values, objectives and structure⁴, the employment policy is closely related to the EU strategy and policy aimed at mitigating poverty and social exclusion. Key issues of this policy include the establishment of an inclusive labour market that is open to all, the raising of employment rates and ensuring that participation in employment is a universal right and possibility.⁵ The new employment policy of the EU as well as its policy to combat poverty and social exclusion reflect the recognition of those facts that sociologists have been emphasising for a long time, i.e. that social exclusion and poverty threaten mainly those groups which have been forced out from and are on the periphery of the labour market⁶, and that missing or weak labour market attachment reduces the chances of access to goods, services and rights, which, in turn, leads to fewer social linkages and the loss of the sense of security. To put it differently, presence in the labour market is a self-evident pre-requisite for inclusion/integration, which means ‘full social membership’ for excluded groups and the strengthening of cohesion and solidarity in the society as a whole (Castel 1993, 1998; Atkinson 1998; Ferge 2000; Simonyi 2001; Ferge *et al* 2002; Havasi 2002; Laki 1997, 2002; Spéder 2002; Szalai 2002; Darvas and Tausz 2003).

Handicap Upon Accession to the EU

Aimed at the raising of employment levels, the establishment of an open labour market and the provision of equal opportunities, employment policy in Hungary created a labour market where, at the time of Hungary’s accession to the EU, both unemployment⁷ and employment rates were low, while economic inactivity was high – a permanent characteristic that is uncommon in most EU member states (Laky 2002, 2003)⁸. This rather enduring structure rests on a fossilised labour-market and economic, social and spatial inequalities, which are inextricably interrelated. As economic recovery and restructuring got under way, Roma and non-Roma men and women with poor schooling and low-level, obsolete, unmarketable skills, specialist knowledge or expertise and/or those of more advanced age or limited working abilities were forced out from the primary labour market, practically for good.⁹ They form the core of economically inactive persons who do not enter the labour market, either through necessity or voluntarily, the long-term unemployed and the officially unregistered unemployed, who have already abandoned all hope.

They mostly live in regions, areas or settlements ruled out by investors as potential locations of their employment-generating capital investment projects, where a permanent lack of job opportunities set the spiral of the disintegration of persons, families and communities into motion already in the 1990s. Polarisation and strong segregation between the hub areas of development and peripheries point to the fact that, characterised by such polarisation and strong segregation, a system of inequalities and advantages and disadvantages of various kinds is evolving. One of the outcomes of this process is that, at the negative end of the spectrum, disadvantaged rural regions with a population of sub-social classes have emerged or are currently emerging (Kovács and Koós 2003, Ladányi and Szelényi 2003, Virág 2004).

Two Groups of Those Affected¹⁰

Dashed Hopes of Integration: The Roma in the Labour Market

That the biggest losers of transition into a market economy are the Roma is now a professional and political platitude.¹¹ The labour demand of an extensive economy and compulsory primary education, which was also provided for the Roma, guaranteed almost full employment¹², and provided for the possibility of the social mobility and integration of the Roma during the long decades of socialism. Mass unemployment in the wake of the regime change shook the foundations of fragile social integration. High employment, which had evolved during the preceding decades, and resultant secure livelihood were replaced, on a massive scale, in a matter of a few years, and even if significant regional differences are taken into account¹³, with uncertain and low employment based on odd jobs and with a lifestyle that relies on irregular income and is characterised by continuous dependency on unemployment benefits and other social transfers, evocative of third world conditions (Kertesi 2003). One of the neuralgic issues on which professional and political debates, addressing new poverty and social exclusion, focus is that of ethnicised poverty. Studies (and daily experience) confirm that the majority of the poor do not belong to the Roma community (Ferge *et al* 2002) and that the differentiation of this ethnic group according to class status has begun, and so has the process of the rise of a middle class, an important fact even if this only affects a thin stratum. At the same time, there has evolved a Roma underclass, which lives in utter poverty and social exclusion (Ladányi and Szelényi 2002). To put it differently, even though not all Roma are hit by poverty and irrevocable social exclusion, the majority of the Roma are caught in a trap of deep long-term poverty and social exclusion as a combined impact of regional disadvantages (most Roma live in regions or counties that are either hit by economic depression and/or have an unfavourable settlement structure), employment-related and educational disadvantages that accumulate on a family level and overt discrimination (Kertesi 2003). Neither poverty nor social exclusion is an ethnicity-specific phenomenon. Nor does the social exclusion of the Roma call for purely social policy measures. The blurring of ethnic and social issues jeopardises the integration of the Roma (Szelényi 2001; Ferge *et al* 2002; Ladányi and Szelényi 2002; Spéder 2002; Szalai 2000, 2002). It is true, however, that the Roma origin

alone portends aggregate poverty and social exclusion and serves as an explanation for them (Ferge *et al* 2002; Kapitány and Spéder 2004).

Integration (assimilation) efforts in the socialist era as well as individual and family-level strategies, once deemed successful, unravelled with dramatic speed. They were replaced with poverty, social exclusion and higher-than-earlier segregation of a new type, mainly in depressed regions and areas with small villages. Like members of the majority society, more successful and ambitious Roma families migrated to hubs offering employment opportunities, leaving behind their poor immobile unemployed fellow ethnic members as well as their homes of low market value; in a reverse process of migration, which further deepened segregation, abandoned property became homes predominantly for Roma families from nearby villages and towns, in pursuit of easier livelihood. The educational system is another source of Roma segregation and exclusion. The constitutional right of free selection of schools enables non-Roma families, living or stuck in settlements in crisis regions, to break free from their current situation, vicariously though, through the mobility of their children, i.e. they enrol their children at schools in regional centres or cities, where higher educational standards and the chance of future university or college education are attributable to, among other things, a low proportion of Roma students. The ‘results’ are the re-emergence of Roma shanty towns, an increase in the number of small settlements, small villages and whole regions undergoing ghettoisation, the reproduction of hopeless poverty and a divide between majority and minority communities widening into a gulf.

Spellbound by the Home and the Family: Women and the Labour Market

While, despite considerable regional differences and the obvious commencement of the process of class formation, the majority of the Roma, who also face the danger of being caught, forever, in a trap of little education, unemployment and poverty, share the collective fate of labour market, economic and social exclusion, there is no such shared fate of women in terms of either equal opportunities in the labour market and in the society or integration; women experience disadvantages in the labour market on the basis of their education, state of health and, most importantly, family cycles (i.e. the number and age of children).

Female employment has inched up from an earlier low level, and is now higher than male unemployment in the EU; by contrast, in Hungary both the number and the proportion of women in employment have fallen dramatically, relative to their nearly full employment in the socialist era. Economic inactivity has become a typical alternative to female unemployment. Women are less likely to become unemployed in Hungary. However, when they do, it is harder for them to re-enter the labour market. The reason why the proportion of the unemployed is not any higher among them than among men is that, when they are no longer unemployed, they become economically inactive rather than job seekers (Nagy 2002)¹⁴.

One of the issues that literature on new poverty in transition economies addresses is the extent to which poverty becomes feminine, i.e. whether or not women become impoverished more easily than do men. Views are divided on this issue. Although some analyses suggest no material gender difference in Hungary as regards risks of

impoverishment, e.g. unemployment (Fodor 2001; Glass and Kawachi 2001), female exposure is higher in certain particularly vulnerable households (e.g. single-member elderly households and one-parent families with women as bread-winners) (Spéder 2002)¹⁵. Researchers point out that women's relative advantages in the labour market, which can be ascribed to their higher level of education compared to men's, seem to be disappearing (Glass-Kawachi 2001), as men enrol, in an ever-increasing number, for training courses offering more marketable skills (Ferge 1999). Others fear that changes in the policy of family support, i.e. the restoration of entitlement to childcare allowance and child-raising allowance as civil rights, may weaken women's labour market position (Lévai 1999). The findings of a recent representative study reveal that families with women as bread-winner are over-represented among socially excluded families hit by aggregate poverty, i.e. among families that are poor in terms of income, consumption, housing and home fixtures and furnishings, or that deem themselves as such (Havasi 2002: 64). In East Central European comparison, too, it seems that single women and one-parent families with women as bread-winners are more at risk of impoverishment. Rather than structural determinants (e.g. education), the gender effect alone can provide an explanation for the frequency of poverty (Ladányi and Szelényi 2002: 84).

As to women's labour market position, both favourable and unfavourable trends are discernible. As regards the former, women's labour market position and prospects have improved in respect of both education and age. With market economy gaining ground, the tertiary sector has expanded rather than shrunk. Expansion meant increasing demand for labour. As a result, female unemployment has stabilised at low levels, and the employment chances of the new generations, trained to a higher standard than older ones, due to the expansion of education, have improved (Lakatos 2001). Considering unfavourable trends, the forcing out of elderly and/or unskilled poorly educated women from the labour market seems to be final and irrevocable. These two trends hit working age women in rural areas hard because they have always been less educated than their counterparts in cities or more developed regions (Timár 2000), the capacity of agriculture and industry employing semi-skilled female labour has contracted dramatically in local (regional) labour markets and the services sector, though relatively important, is unable to (re)integrate economically inactive unemployed women into the labour market.

A major unfavourable trend of the 1990s was that those women who decided to rely on the childcare benefit scheme stood an increasingly slim chance of returning to the labour market. Simultaneously, the proportion of those intending to stay at home increased (Lakatos 1996, 2001). As the proportion of female economic inactivity increased and women were crowded out from the labour market, so value changes occurred in the Hungarian society. The former positive perception of working women changed, with traditional male and female roles gaining in importance (again) (Frey 1999, 2001a, 2003; Nagy 2000; Lakatos 2001; Pongrácz 2001, 2002; Tóth 2001). A number of studies point out that the perception of women as home-makers is more favourable especially among women with little education or at places where the forcing out of women from the labour market has been a mass

experience. This, in turn, suggests that underlying reasons for changes in values are very likely to have been dire necessities (Frey 2001a; Pongrácz 2001).

Equal Opportunities and an Inclusive Labour Market Remain a Dead Letter

A Segmented Primary Labour Market

In the light of our own findings and others', it is safe to assume that the fossilisation of labour market and employment structures and of the structures of livelihood in Hungary's disadvantaged regions prevent disadvantaged groups, among them certain groups of the Roma and women, from access to equal opportunities in and integration into the labour market and, hence, the society. So much so that the need for raising this issue is called into question. A fundamental issue is whether disadvantaged group(s) can be (re)integrated into anything at all, i.e. whether there are satisfactory employment opportunities within easy reach. What is of paramount importance is the quality of the labour markets into which current employment policies intend to (re)integrate the relevant groups.

As to the primary labour market, in the disadvantaged areas no regeneration or restructuring followed in the wake of the collapse of a lopsided economic structure, a legacy from the socialist era, ridden with crisis sectors (i.e. mining, heavy industry and agriculture); local or settlement level labour markets have either disappeared or shrunk. Even more importantly, the size of the re-established economies and labour markets of the hubs (i.e. towns/cities and county seats) in the vicinity of micro-regions does not provide for the possibility that potential labour from neighbouring areas can be fully absorbed. Regional labour markets are small, as the areas of commuting have shrunk due to increasing travel expenses. These labour markets are still shrinking. Uncompetitive in the global market, dressmaker's shops, which used to employ a large amount of semi-skilled female labour, have gone bust recently, leading to shock-like mass female unemployment. These labour markets are characterised by weak, segmented and segregated demand potential. What limited number of jobs there are, they are taken by skilled male or semi-skilled female labour. Furthermore, 'statistical discrimination' (if nothing else) 'guarantees' that the Roma or mothers with young children only rarely enter these shrinking markets. Experience confirms that active employment policy measures aimed at the reintegration of the unemployed into the labour market usually benefit employers, who receive subsidies to employ the unemployed, and who cherry-pick those who are the best skilled, the most motivated and the most likely to find employment.¹⁶

Informal, Black or Grey Economy Labour Markets

Most of the unemployed work, and very hard at that, even if, according to various registries, they are unregistered unemployed or economically inactive persons; they are employed in the informal (or black/grey/invisible) economy. Informal or black economies are a Janus-faced phenomenon: it is an insurmountable wall that stands in

the way of economic and employment policy reforms, on the one hand. It is also a structural component that sustains the viability of the system, on the other. As a result of their ultimate exclusion from the primary labour market, the Roma have entered the informal economy as one of their major strategies of livelihood (Tóth 1997; Kemény 2000). This may lead to the revival of traditional activities (e.g. a gathering lifestyle) or the emergence of such forms of livelihood that are closely associated with deep poverty and fall just within the boundaries of what is legally permissible (e.g. usury that further exacerbates the plight of those in a desperate situation). Working in the informal or black economy is the cornerstone of livelihood not only for the unemployed or the poor among the Roma. Strangely enough, even access to work in the informal or black economy is unequal. Such inequalities are gender-based. Men in disadvantaged regions have a wider selection of jobs from which to choose (e.g. day labour, household jobs, forestry and construction industry, etc.) than do women, who mainly do certain agricultural or forestry odd jobs. (There is no urban middle class in disadvantaged regions that could afford charwomen, for instance.) On the other hand, inequalities are also associated with settlement types and distance between settlements and hub areas of development. In small villages in Baranya County, for instance, day labour offers employment and income opportunities locally, while in areas in the vicinity of Budapest, illegal work in the construction industry is a mass strategy of livelihood. The social embeddedness and acceptance of traditional patterns are equally important (e.g. crop-sharing has been a source of living for inhabitants in small villages of Nógrád County for decades now).

Although the financial losses (no taxes or social security contributions are paid) incurred and the dangers (a complete lack of eligibilities and employee insurance coverage) posed by employment in the black market are well-known, it is perpetuated by pressing necessities and vested interests. The long-term unemployed, who have/could have access to employment only in the subsidised labour market, and who draw benefits in the interim periods, earn satisfactory enough income, irregularly though, in the black economy. The interests of those who employ the unemployed illegally are obvious. They wield considerable enough clout to thwart even capital projects that could create jobs locally. Those who are responsible for addressing long-term unemployment, i.e. mainly municipalities organising public work and granting benefits, are unable to provide respectable employment and living for those turning to them. They are not only aware of the practice of illegal employment, which they refrain from challenging, but they also have a positive perception of and even 'reward' such employment and black economy workers, since such workers at least make efforts to provide a better life for themselves and their families; they at least do not make themselves a pain in the neck for municipalities by submitting repeated applications for benefits; thus, they spare municipalities the chore of organising public work.¹⁷

Female Inactivity and Immobility

Several factors hamper the return of economically inactive unemployed women to the labour market. On the demand side, there are labour market barriers, including –

among other things – the costs of commuting, unequal pay and (statistical) discrimination against women with young children. Women with a family stand a slimmer chance of finding employment in the labour market outside their places of residence, i.e. a job involving commuting, than do men (Galasi 2002), since high travel expenses dampen the propensity to commute of those women who are in the worst labour market situation (Bartus 2003). Female inactivity and immobility are further increased by the fact that, given the amount of attainable income and taking into account the pros and cons involved, families tend to decide that men go out to work and women stay at home (Galasi 2002). With real wages on the decline, paid female employment is less and less lucrative; female pay, though to a decreasing degree, falls short of male pay (Frey 2001). As to (statistical) discrimination, since employers pre-suppose that the work performance of women returning to work will be lower, they are reluctant to employ them; the more children women have and the younger (under 14) these children are, the more so.¹⁸

Female inactivity and long-term unemployment are also perpetuated by the life strategies of both individuals and families. Women in rural areas who cannot find employment because there are no job opportunities, or even if there are, they are at places that are difficult and/or expensive to access, and are invariably the worst paid jobs requiring semi-skilled labour, with working schedules mismatching the daily routine of child-raising, cannot but reconcile themselves to the lack of ‘room for manoeuvre’ and adjust to survival (Dögei 2002: 114). In order to be able to accept what cannot be altered, both men and women should attend to duties, cherish values and be able to offer reasoning which helps turn necessities into voluntary (and good) decisions and boosts self-esteem.

Because of long-term unemployment and financial constraints, housework, household and second economy jobs as well as child-raising gain in importance. Mothers in families in rural areas hit by unemployment and poverty keep emphasising that bringing up children is the most important role in their lives, and that this is what they take great pleasure in. However, one of the possible underlying reasons for stressing the importance of traditional female and maternal roles is that mothers wish to avoid potential labour market failures by deciding to be homemakers (Orsovai 2002: 45)¹⁹. Accepting traditional role models and integrating them into life strategies, whether through necessity or voluntarily, lead to a stronger hierarchy of dependence within the traditional family structure and, ultimately, reinforce the role of women as dependants again.

Even if there were enough employment opportunities for women with young children – either locally or at more remote places, which is an exception that proves the rule in disadvantaged areas – their employment would be fundamentally hampered by the fact that there are no institutions or services which could facilitate the combination of family and career. Aimed at raising birth rates and prioritising traditional female roles, family support policies in the 1990s put the development of the network of childcare institutions on the back burner, with crèches practically disappearing (Tóth 2001). Even more importantly, new services, e.g. daytime childcare provided by family businesses or baby-sitting, have been unable to offset a sharp decline in the number of crèches and places at such institutions. Our

experience confirms that, although there is demand among women with young children in disadvantaged areas for these new services, which replace childcare institutions, municipalities with no funds cannot or do not want to support the provision of such services; furthermore, (public health and financial) requirements for the provision of services of this type scare off those who would otherwise be willing to provide them. Current educational institutions are also unable to accommodate the working schedules of working women. Municipalities operating such institutions are also unlikely to take such schedules into consideration and strive for the introduction of flexible opening hours at kindergartens or schools.

Aimed mainly, but not exclusively, at reducing female inactivity and unemployment, and based on unmet personal and community needs, some of the current plans, which dovetail EU employment policies and the practice of local employment initiatives, intend to increase employment through the inclusion of what is called social economy. The majority of such unmet needs include jobs and duties linked to the home, e.g. child supervision in the home and homecare for the elderly. For such needs to be met, live labour is required in an amount that neither municipalities nor the market can or want to provide. In consequence, the provision of such services is, as a rule, the responsibilities of the non-profit and civil organisations in the tertiary sector (Frey 2001b; Nonprofit Kutatócsoport 2001). The establishment of the social economy is expected to result in employment growth through the inclusion of the currently unemployed or economically inactive, who are probably employed in the black economy, in the legal labour market. Moreover, employment growth also generates demand for newer types of services, which further facilitates the finding of employment (Frey 2003). Various estimates suggest that there are approximately 100,000 women who could mean potential employment opportunities for each other, i.e. those who would be willing either to provide or use such services (Frey 2003). The ageing of the population, the disruption of families and the lack or downsizing of human infrastructure and municipality services in backward regions with a large number of small villages in them all call for the provision of social economic services. Given the current tight labour market, there is likely to be a supply of labour that could be involved. The lack of necessary legal and financial conditions hamper the establishment of the social economy on a national level. In backward regions, where most municipalities are unable to perform even their basic duties, further obstacles also include the lack of non-profit organisations and weak effective demand for personal and community services.

Secondary or Subsidised Labour Market: New Types of Dependence

Whether work in the home is voluntary or not, the prestige of local employment opportunities – dispensed, almost exclusively, by municipalities within the framework of public work²⁰ in settlements in backward regions – have risen among economically inactive unemployed women. As to the unemployed Roma, they can access the market economy only through the secondary or subsidised labour market, which is roughly as good as their labour market integration currently gets (Lukács 2003).

This is indeed why (re)integration opportunities offered by the secondary or subsidised labour market are of critical importance. Since the switch-over to the market economy, consistent with the practice of local employment adopted in the European Union, the duty of addressing long-term unemployment has been delegated, to a growing extent, to municipalities, which, however, find it increasingly difficult to carry out an ever-increasing number of employment policy tasks. Enjoying wide social support, the 2000 reform of the unemployment benefit and social support systems was the culmination of the above process. It, however, failed to live up to expectations.²¹ In vain did it aim at encouraging the employment of the long-term unemployed if there was no employment growth in the primary labour market. This was all the more serious as, owing to the tightening of the eligibility criteria for unemployment benefits and to the stigma that public purpose work carries, not only free loaders, but also some of those in need have been excluded from the social support system. The greatest problem is, however, that the social support system – which, with the income substitution scheme abolished, now only has two components, and which has delegated the duty of providing employment for the long-term unemployed to municipalities – locks the most disadvantaged labour market groups in the most dire labour market position in the trap of long-term unemployment and dependence on social benefits. In the case of public purpose work, not even the circulation effect, often referred to in connection with work of public interest, applies, i.e. not even 30-day public work makes the unemployed eligible for inclusion in the national support system.

Municipalities are unable to fulfil their responsibilities related to the provision of employment opportunities, the smaller is the settlement of which they are in charge, the more so. They feel left to their own devices, with hardly any non-profit organisations or professionals which or who, applying tailor-made solutions, could help the most vulnerable groups of unemployed persons to cope with a multitude of mental, health and family problems. When asked about their experience in public work projects, municipalities will say that there is not enough work to do, there are hardly any or too many unemployed persons to be engaged in public work, there is no capable labour force and work is done inefficiently. At the same time, however, like participants in the primary labour market, municipalities, juggling with the local issues of social and employment policies, cherrypick the few unemployed persons who are fit for work, more capable or even skilled, whose work performance is better and who may even have the necessary equipment for work. As a result, the most vulnerable groups of the long-term unemployed sometime wait for years to be employed for 30 days. The reason why municipalities, citing, rationally and understandably, efficiency, can get away with cherrypicking is that, compared to the disgracefully low amount of the unemployment benefit pegged to the minimum amount of the old-age pension, even part-time employment provides better income. Thus, participation in public work projects initiated by municipalities has gained in importance significantly. For different reasons, though, both municipalities and related organisations responsible for public work projects and persons doing public work have vested interest in the regular operation of public work schemes which offer the type of work that is completely identical to what is available in the primary

labour market. Nevertheless, the fact remains that a paternalistic hierarchy is one of the structural components of local subsidised employment. At one end of this hierarchy are representatives of local power, who can offer or deny employment and income opportunities, at the other end are long-term unemployed persons receiving social benefits, an overwhelming majority of whom cannot re-enter the primary labour market and thus need employment opportunities offered by municipalities.

Conclusions

The requirement of providing equal opportunities and establishing an inclusive labour market, in keeping with EU policy values and objectives, remains an idea that cannot be put into practice in backward regions in Hungary. When it can, it requires enormous financial and human efforts. The underlying reason for this is that today there are only isolated employment opportunities in the primary and the secondary or subsidised labour markets, and there seems to be no passageway between living on social benefits and the world of legal labour. What has remained resembles an ‘overgrown footpath’ at best. Relying on black labour, social transfers and work in the home, strategies of livelihood and life strategies for disadvantaged long-term unemployed Roma and non-Roma men and women have become fossilised. Meanwhile, in local communities old and new hierarchies, both formal and informal, have re-emerged and evolved respectively and gathered strength, contributing to the process of fossilisation. This leads to the reproduction of these structures and living conditions for the generations to come, which, in turn, means that the exclusion of Roma and non-Roma families and, hence, settlements and even whole regions from mainstream economy and social life will be increasingly stronger.

NOTES

- ¹ Registered unemployment reached its peak in Hungary in 1993, and has been declining steadily since then.
- ² Sponsored by the Ministry of Employment and Labour, the empirical research that forms the basis of this paper was conducted in 2003 and 2004. The Bánytereny and Sásd micro-regions, each with a spatial structure of small villages, are situated in Nógrád and Baranya Counties respectively. Unemployment and Roma population are high in both regions. We conducted structured interviews with local, regional and municipal office-holders, minority politicians, employment policy experts and economic actors (90 interviews); we also did one-to-one and group interviews, and held focus group discussions with unemployed persons (with 60 Roma and non-Roma men and women altogether).
- ³ The directives and guidelines of the new strategy, which have, in essence, remained unchanged, were approved by the Luxembourg Employment Summit in 1997. These guidelines or pillars are improving employability, developing entrepreneurship and job creation, encouraging the adaptability of businesses and their employees and strengthening equal opportunities policies for women and men. Member states agreed to draw up an annual National Action Plan which describes how these Guidelines are put into practice

nationally. In order to implement the European Employment Strategy, the European Social Fund (ESF) was established. ESF provides funding for those projects that are included in the individual National Action Plans, with human resources and labour market development as their primary objective. Hungary developed its own employment policy guidelines, the implementation of which it checks in co-operation with the Commission. The competent ministry submitted the National Action Plan to public debate on 14 June 2004.

- ⁴ Co-operation based on ‘the open method of co-ordination’ was modelled on EU employment policy. Under the method, common objectives and outcomes are defined at an EU level. Member states are responsible for their implementation, on which they report to the Commission. This method was adopted when the policy to combat social exclusion was developed. This proved to be a happy medium between the demand for a common employment and social policy and the sovereignty of the member states.
- ⁵ Raising employment rates is a key issue in the individual National Action Plans, and, hence, in the Joint Inclusion Memorandum signed in Brussels in December 2003 as well as in the National Action Plan for Social Inclusion submitted to public debate in June 2004. One common and clearly defined element of the national reports prepared by EU member states on the results of combating social exclusion is that ‘whoever can, should work, no matter how little’, as was pointed out by an analyst of these reports (Krémer 2003, p. 67).
- ⁶ New poverty is the outcome of unemployment in the wake of transition into a market economy. Unemployment is a more serious risk factor of poverty than demographic factors such as advanced age, a large number of children, one-parent families and single-member families (Spéder 2002). Various studies on poverty confirm that the primary risk factor of long-term poverty, i.e. aggregate deep poverty, is unemployment (Gyorsjelentés a szegénységről [Flash report on Poverty] 2003, Darvas and Tausz 2003, Ferge, Tausz and Darvas 2002).
- ⁷ In Hungary there are two statistical record-keeping methods of defining and identifying unemployment. The Central Statistical Office has been conducting labour surveys since 1992, employing the ILO definition of unemployed persons, i.e. those persons who are not working, but would like to and therefore are actively engaged in job search and are available for work within 30 days. By contrast, under Hungarian regulations, those active age persons qualify as unemployed who are registered with the labour centre offices of the State Employment Service, whether or not they are engaged in job search and whether or not they are fit/available for work.
- ⁸ Unemployment rate was 5.8% in Hungary in 2002, compared to an EU average of 7.6%. In the same year 64.3% of the population aged between 15 and 64 were employed in the member states; the proportion of men was 72.8% and that of women 55.6%. Corresponding figures for Hungary were 56.3%, 63.1% and 49.9% respectively (<http://europa.eu.int/comm/eurostat/Public/datashop>; Laky 2003).
- ⁹ Data on long-term unemployment give an indication of the irrevocability and extent of exclusion. According to surveys that adopted ILO standards, the share of the long-term unemployed of the unemployed was 40.1% in 2002. The majority (in 2002: 82%) of the unemployed who turn to job centres are ‘regulars’ (Laky 2003).

- ¹⁰ This paper does not address the issue of the serious disadvantages that the disabled suffer in the labour market and in all the other areas of life, nor the disgraceful lack of equal opportunities in their case.
- ¹¹ Scientific analyses, demographic projections and the above national documents related to Hungary's accession to the European Union rely on the data from Istvány Kemény's studies on the Roma (1973, 1993, 2003) and the estimates of Roma organisations rather than census, i.e. voluntarily disclosed, data. Based on them, the number of the Roma in Hungary is currently 400,000 to 650,000. However, only 190,000 persons defined themselves as members of the Roma community during the 2001 census.
- ¹² In 1971, within the population of the corresponding age group, 85% of the male Roma were active earners. This proportion was only slightly different from the employment rate (88%) of the total active-age male population. In the early 1980s three-quarters of the working age male Roma were employed. The employment rate of the female Roma, due to a higher number of children, was 30% in 1971, compared to a national average of 64%. By the late 1970s, however, half of the working age female Roma had become active earners (Kemény 2000, Kemény and Janky 2003).
- ¹³ One of the most important findings of a representative survey on the Roma carried out in 2003 is that, essentially, access by male and female Roma to employment depends on their place of residence, with Budapest and a developed Central Hungarian region at one end of the spectrum and the Northern Hungarian region at the other. The reason why the survey makes a dismal reading is that 60% of the male Roma and 73% of the female Roma do not have regular paid work (Kemény and Janky 2003).
- ¹⁴ The labour surveys that yield data which are comparable with those for OECD countries classify, as economically inactive, those passive or despondent unemployed persons (i.e. those who are likely to be registered as unemployed in the Hungarian Labour Registry) who would like to find employment, but who, for skills, health and family-related reasons and/or because they see no hope of finding employment, are not actively engaged in job seeking. The share of such despondent unemployed persons in the female population is twice as high as in the male population (Nagy 2000).
- ¹⁵ In Western Europe the issue of the feminisation of poverty surfaced in connection with an increasing number of single mothers (Ferge 1999).
- ¹⁶ One such measure of active employment policy is wage subsidy granted by the Labour Office to employers who employ unemployed persons. This issue, i.e. that active employment policy measures mostly provide assistance for those who could manage without it, crops up in debates on the dead weight effect of labour market measures and programmes.
- ¹⁷ There are various types of rewards, e.g. those engaged in public work are allowed to do black work when they are supposed to do public work. The mayor of the settlement employs unemployed persons illegally himself.
- ¹⁸ The MONEE Report stated in no uncertain terms that the biggest losers of transition into a market economy were women with children (Frey 2001a).
- ¹⁹ For men, because of the persistence of their traditional role as bread winner, work for the family in the home does not offer a 'shelter' (Orsovai 2002).

- ²⁰ Municipalities have three types of public employment from which to choose. There is no substantial difference between them in terms of the activities that they involve. There are, however, marked differences in terms of available funds and the term of employment. The ‘classical’ type is work of public benefit, for which municipalities, specifying duration and the number of the persons needed, with available funds taken into consideration, can submit applications to municipal labour organisations. Invitations to participate in public work programmes are published by the National Public Work Council for large projects and for a period of 6 months maximum. The minimum length of public purpose work is 30 days. Municipalities are granted separate normative subsidies for this form of employment.
- ²¹ The objective of the reform was to encourage the unemployed to find employment as soon as reasonably possible. The underlying assumption was that the majority of the unemployed, who were content with the benefits that they drew, did not want to find employment. As part of the reform, the so-called income substitution scheme was discontinued. Income substitution was a source of income for the unemployed during the period intervening between their eligibility for unemployment benefits and that for social benefits. In this period the unemployed had to report regularly at labour organisations. The income substitution scheme was replaced by the regular social benefit scheme. Eligibility for benefits under this scheme is assessed on the basis of the financial and income position of applicants and their families. The unemployed also become eligible for this support if, and this is a new feature, they do public purpose work for at least 30 days.

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Chapter 18

Gender and Spatial Inequalities in Hungary in the Transition Era

Judit Timár

Introduction

Space is socially produced. But what exactly is taking place in the socially produced space in a given social context, where new social agents, which – all of a sudden – become new important factors shaping the space, emerge in the new social and economic order of post-socialism and also where the relationship of such eternal social groups as men and women is undergoing a noticeable transformation?

The mere fact we can raise this question (and its perspectives) is really the product of post-socialism in Hungary. It reflects a new approach to gender relations and the acceptance of a wider range of views on the relationship between space and society, among them the above approach adopting Lefebvre's concept (1991).

The new approach to gender relations is reflected in the institutionalisation of policies that seek to secure equal gender opportunities, a sluggish social discourse on gender relations, linked in part with newly established women's organisations as advocacy groups and the growing number of gender studies mirroring the increasing affinity of social sciences towards the issue. It is true that gender studies do not usually lay much emphasis on the spatiality of society. Disciplines studying space – although they do display some affinity towards increasing regional inequalities in, say, income generation, living conditions and the quality of life in the transition era – they tend to perceive winner and loser regions and tend to see settlements as socially homogeneous spaces and places. And even when they study certain social groups, they rarely pay attention to the social relations between them. They pay even less attention to gender relations. Still in its early stages, feminist geography is a recent development.¹ However, owing to the gender blindness of geography and the space blindness of gender studies, not much is known of the typical way spatial inequalities and gender relations are correlated in the post-socialist transition.

This paper seeks to explore some aspects of these correlations. As no studies with a similar subject matter were undertaken in the socialist era and as statistical data provision was (and actually still is) gender blind, we must confine ourselves to assessing the effects of the new economic, social and political processes of the

transition era and studying the decisions and responses – adjusted to the new circumstances – of the social agents shaped by gender. The first part of the paper maps the way gender inequalities are reproduced in the process of democratisation and the evolution of capitalism. It then goes on to present the way (and the extent to which) uneven spatial development is divided along gender lines. When performing this fundamentally structuralist analysis we focus primarily on the national, regional, urban and the rural scale. Relying mainly on a qualitative analysis, the second part shows how patriarchy on a household scale (related to patriarchy on the national scale) influences adjustment to the post-socialist transition and the internalisation of the new circumstances in regions and social groups with different characteristics in the spaces of daily life.

The Changing Geography of Gender Inequalities

Patriarchy defined as men's dominance or rule over women is often perceived, in the Modern Age at least, as a worldwide phenomenon. As Giddens (1997: 188) puts it, 'Once patriarchy has evolved, it becomes an institution and is incorporated into institutions outside the sphere of reproduction. Patriarchy is embedded in subtle and less subtle networks of relations that establish connections between the material conditions of life, the mechanisms of a strong social control and various ideologies.' We agree with some of the criticism levelled at the concept of patriarchy in the 1980s, which questioned its applicability, labelling it as a 'meta-theory', 'universal', 'ahistorical' and 'insensitive to cross-cultural variations' (see in Perrons and Gonäs 1998; Pratt 2000). Yet what we have to say about gender relations in the post-socialist transition in Hungary sounds an exciting challenge, if we reasonably assume that the existing forms of both state socialism and capitalism can be described as patriarchal societies. Except for a few cases, quantitative analyses using regional data can only be performed on the labour market and political participation. That is, in the very spheres where, due to the disappearance of almost full employment (created out of economic necessity in the socialist era), and the abolition of a formerly artificial quota system in parliamentary elections, the status of women compared to that of men deteriorated in the 1990s. This might require a subtle explanation and urges us to tread carefully when comparing the two eras. Yet, these are the most spectacular spaces of action for the processes of the evolution of capitalism and democracy. Hence we only intend to provide an evaluation of these two economic and social spheres along with a brief outline of some trends. Our evaluation is, for the time being, far from being comprehensive and concentrates primarily on characteristics common in the transition era. So as to identify the characteristics of the era, we make use of data that are at least comparable with the current situation in advanced capitalist countries in Europe because they are suitable for comparison with Hungary's own socialist era.

'Mapping' Gender Inequality in Employment

One of the most marked characteristics of transition is that before economic consolidation (i.e. the second half of the 1990s), *processes* in Hungary were exactly *the opposite* of those in advanced economies in Europe. While female employment compared to male employment grew in the EU-15 countries, they both fell sharply in Hungary. The employment rate of working age women was 81.2% of men's in 1990 (compared to 65.0% in the EU then). The corresponding figure for 1997 was 75.2% (hardly above the EU average of 72.0%).² As regards their main trends, the changes after economic consolidation were identical to their Western counterparts. The employment rate of both sexes rose in a manner such that the difference between the two rates in 2003 was close to what it was in 1990 (i.e. 80.2%). However, gender inequalities decreased against the backdrop of a fundamentally low level of employment (63.5% of 15–64-year old men were in employment in 2003; the corresponding figure for women was 50.9%).³ While at the beginning of the era female employment in Hungary was about the same as that in Northern Europe, now it is closer to that in Southern Europe, which is at the lower end of a scale wider than the one for men (Frey 2005).

The above figures, which can be interpreted only on the national scale, provide no insight into background processes (i.e. the economic, social, cultural, political and institutional contexts), and give little indication of the nature of gender inequalities that applied for Hungary in the transition era. The less so, for the simple reason that, as a rule, in order for such inequalities to be demonstrated, a wide range of sophisticated models are used in the Western world. Using the female-male activity rate ratio,⁴ Perrons's (1998) regional analysis of 12 EU member states for 1994 suggests that Denmark, for instance, is a model of the so-called 'social-democratic regime' characterised by the support of gender neutral citizenship (Leibfried and Ostner 1991) and this contributes to a high female-male activity rate ratio. According to another theoretical approach, Denmark is the embodiment of the 'weak breadwinner' model, which encourages women's participation in paid work (Lewis 1992). In contrast, the UK, which also has a high female-male activity rate ratio, is an example of a 'liberal market regime', where 'there is a formal commitment to equal opportunity but little state provision or support to facilitate equal outcomes' (Perrons and Gonäs 1998: 5). Not only is the proportion of, for instance, part-time work high in that country, but also the schemes of such part-time work and the conditions of employment are rather unfavourable (Duncan 1996). Adopting Perrons' method (1998), studies of the mid-90s (Timár 2002) identified a relatively favourable female-male activity rate ratio in Hungary, which was closer to that in the former East Germany⁵, which had a socialist past like Hungary's.

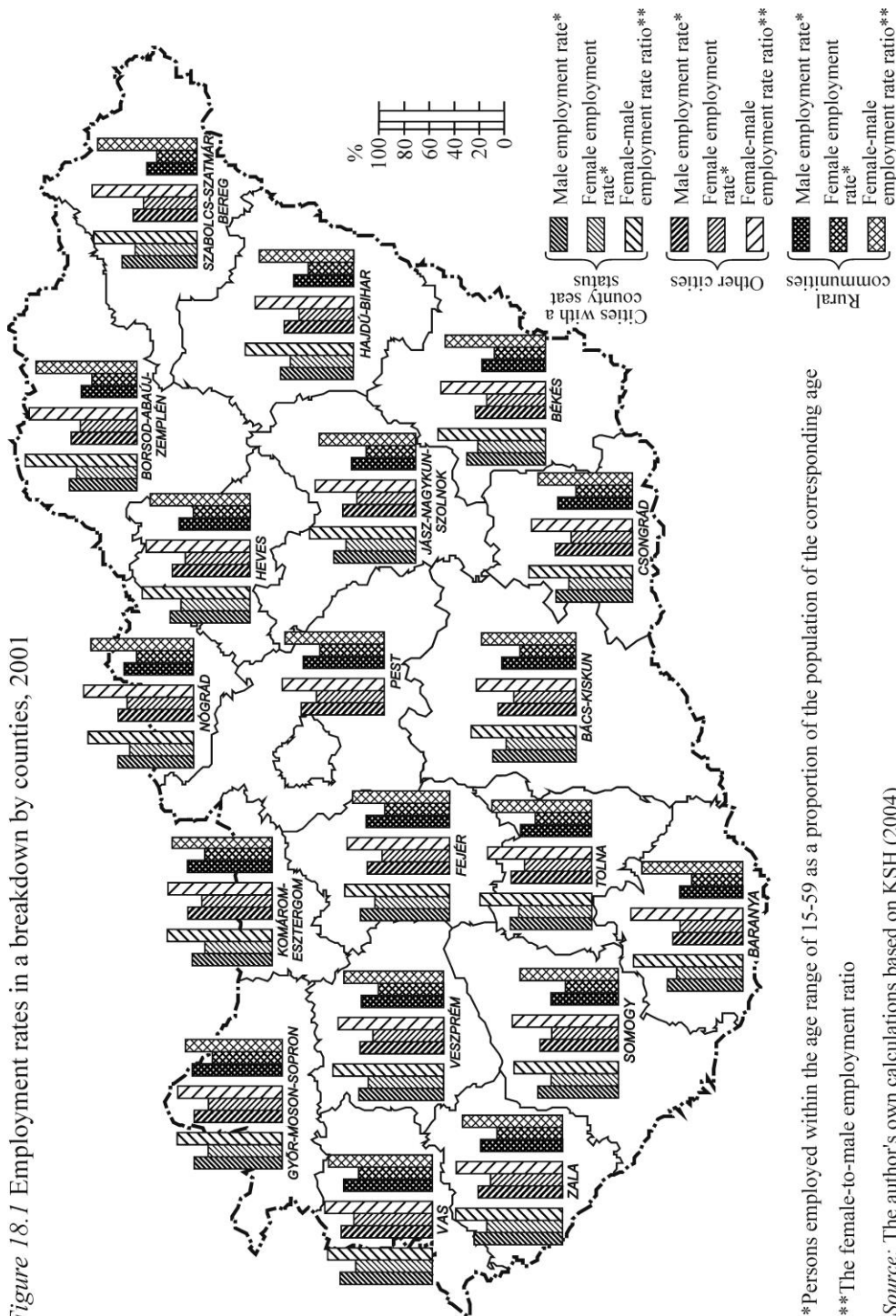
Spatial analyses within the individual countries also point to diversity (Perrons 1998), while at the same time supplying principles that explain why the gendered nature of the production of space persists. Our analyses of *the mid-90s* (Timár 2002) revealed considerable regional differences in Hungary, even though they were not as stark as in Italy or Greece. The question here is whether the higher gender ratio is associated with economically more advanced or city regions as is the case in many parts of Europe (see Perrons 1998); or is it associated with sector differences in the

economy (Schmude 1996); or is it associated with distinctive regional cultures (Sackmann and Häussermann 1994) as the main reasons for the regional differences, as in the case of Southern and Western Germany, say. Whatever the answer to this, it remains a fact that in 1996 (during the economic transition) the geography of gender inequalities in paid work closely followed the patterns of spatial inequalities of income generation, which grew at the regional level. Women's economic activity showed greater regional differences than men's, and women's labour market opportunities depended more heavily on the region they lived in. The counties in the Eastern Great Plain and in Northern Hungary exhibited the highest gender inequalities when it came to access to paid work and were the economically most backward regions of the country, where female economic activity was the lowest. In contrast, counties near the Western border, which constituted the most developed region – the central one excluded – showed much more favourable female-male activity rate ratios along with the highest level of female employment. Women's economic activity most approached that of men's in Budapest, the most developed urban space. However, the fact whether or not women lived in villages, cities or the capital city bore relevance to the levels of inequality experienced. The degree of gender equality in all four major age groups unequivocally followed the urban hierarchy: it was the highest in Budapest and the lowest in the villages. It should also be borne in mind that the urban-rural dichotomy has long been more clear-cut in the former socialist countries than in other parts of Europe due to relatively late urbanisation (Enyedi 1978). The 1990s brought no improvement to this situation at all (see, e.g. Bihari and Kovács 2005).

A somewhat higher level of employment *at the turn of the century* resulted in a lessening of male and female employment inequalities⁶ offering a more differentiated picture on a sub-national scale (Figure 18.1).

- The logic underlying gender inequalities on the regional scale is no longer the same, with a series of individual paths developing. The reason why in the rural communities of Fejér County, say, a county with a high income generating potential, and where the male and female employment rate ratio is relatively low (77.7%) is that the level of male employment is outstandingly high (66.9%). In contrast, in Miskolc, the county seat of Borsod-Abaúj-Zemplén County, one of the most disadvantaged counties in Hungary, the female-male employment rate ratio is extremely high (89.5%) even by urban standards. The reason for this is that a very low level of male employment (54.0%) reduces gender differences.
- One thing has not changed however, and this is the urban-rural dichotomy. The fact that villages offer the fewest employment opportunities holds true for the county level in general. This hits female residents the hardest; gender inequalities in employment are always higher here than in cities/towns. This, however, does not mean that differences in the level of economic development on a regional scale leave the urban and rural scales unaffected. Women in cities and towns in Vas county in a favourable economic position along the Western border stand a better chance of finding legal employment (with the employment rate standing at 63.0%) than do working age men in Nyíregyháza, the county

Figure 18.1 Employment rates in a breakdown by counties, 2001



*Persons employed within the age range of 15-59 as a proportion of the population of the corresponding age

**The female-to-male employment ratio

Source: The author's own calculations based on KSH (2004)

seat of Szabolcs-Szatmár-Bereg county, Hungary's most backward county, in the Northern border region (60.0% employment rate).

That said, men and women compete with each other in the labour market of their immediate neighbourhood. When decisions are made on matters involving entire families, job opportunities in the local labour market affect their decisions on undertaking a job. (For a detailed treatment of reproduced female disadvantages in the livelihood strategies in backward rural regions, see Váradi 2005).

Geographical Scales and Gender Inequalities in Policy-making

'The most beautiful achievement of the change of regime is freedom and, as a consequence, the strengthening of civil and political rights. These changes could give women, too, a chance to work for their own interests and to get 'women's issues' and gender relations out into the arena of public debate' (Ferge 1999: 24).

Ferge's use of the conditional still cannot be changed to the present perfect tense. The transition to democracy has not led to a more balanced male-female participation, at least in national and local policy-making.

While the representation of women among MPs in Western European countries increased by 4-5% during the second half of the 1980s and the beginning of the 1990s, Eastern European women lost 13-14 % of their seats in *Parliament* (Tóth 1995). In Hungary, 20.7% of all MPs were women in 1985, but their presence dropped to 7.3% after the first democratic elections. In addition to the abolition of a mechanism that guaranteed artificially high female participation in politics in the socialist era, Tóth (1995) proposed the following explanatory factors for such a significant reduction:

- women's disadvantageous economic position,
- an unfavourable government policy,
- an unwillingness of the political parties to fight for the female cause,
- a disadvantageous social and cultural environment and
- female indifference (apathy) to political participation.

However, if these were the true factors leading to the "disappearance" of women after the 1990 elections, changes in them cannot have been profound enough during the first decade of the transition period to make women really visible in national politics. Although women gained new seats in Parliament during the 1994 elections when a social-liberal government came into power, they lost almost all of them again in 1998, with the inauguration of a new conservative government. (Only 8.5% of all MPs were women.) With a social-liberal government in power yet again since the 2002 elections, women acquired 9.8% of the seats in Parliament. With this Hungary ranked 97th among 170 countries in 2002. From among EU member states, only Greece ranks lower. Women are more vocal in all post-socialist countries acceding to the EU, except for Hungary⁷ (UNDP 2003). Not surprisingly, in her evaluation of the new arenas that opened in both politics and the economy after 1989, Adamik (1997: 55-56) pointed out that 'the Hungarian case suggests that whether the Great White Male as a social-political actor is conservative, socialist or liberal seems to make no difference.'

The way gender and spatial inequalities are intertwined is reflected in data on membership in *local governments*. As a major result of the political transition in Hungary, in accordance with the amended Constitution and a law passed in 1990, local governments elected in democratic elections and committed to citizens could replace centrally directed councils. However, similar to parliamentary elections, local ones also left little room for manoeuvre for women in local decision-making. While 27% of all councillors were women in 1985, their participation dropped to 16% in the newly elected local governments in 1990 (Vajda 1991).

Similar to other countries, the presence of women is more noticeable at the local level in Hungary and they have been steadily increasing their presence at this level since the change of the political system (in 2002 they accounted for 25% of local council representatives: Pongrácz and Tóth 1999; Lehmann and Polonyi 2004). In this respect, international comparison is more favourable. With its female council members reaching 16%, although in line with EU and OECD averages, Hungary ranked as 27-28th among the 77 countries under review in 1994, still lagging far behind the 8 countries where the corresponding figure was at least 30%, considered as the 'critical mass' (UNDP 1995)⁸.

On the other hand, taking into account the fact that the ratio of women among mayors (15% in 2002) is much lower than their participation in local government and comparing these figures with those of the parliamentary elections, Jancar's (1985) proposition for the socialist period seems to hold true for the post-socialist era as well. That is to say, the more power a political body has, the lower the representation of women on it.

This correlation is also corroborated by a spatial analysis:

- Women's access to the highest positions in the local governments of towns is rather limited. Out of 251 urban communities, only 19 have a woman mayor at present. Typically only two women – as opposed to their 19 male counterparts – are at the helm in a city with a population of over 50,000.
- The presence or absence of women mayors in rural communities also reflects the settlement hierarchy, and the 'power pyramid'. One in 6 villages with fewer than 500 inhabitants is led by a woman mayor, but only one in 9 with a population between 2,000 and 5,000 (Table 18.1).

It seems that, in addition to the inequalities detectable on the geographical scales of the division of power, the urban-rural inequalities reflected in earnings also determine the differing spatial extent of the gendered nature of political decision-making. Based on a statistical analysis we performed in 1998, we found that women were more likely to be mayors in villages in the targeted areas of the national regional development policy. As a rule, they were regions characterised by backwardness; long-term unemployment, industrial restructuring; or rural monofunctions (Timár 2000).

It seems that the form and proportion of women's participation in local politics in Hungary in the period of transition agrees with Regulaska's findings (1994: 138) in Poland in the early 1990s, which was a spatial version of Jancar's (1985) earlier argument: '...the higher the position and the more prestigious the place is, the fewer

Table 18.1 Gender of mayors by community categories, 1998, 2002

Communities by population size categories	1998				2002			
	Women		Men		Women		Men	
	number	%	number	%	number	%	number	%
x–499	152	14.8	874	85.2	172	17.7	802	82.3
500–999	93	13.6	593	86.4	120	17.1	583	82.9
1000–1999	79	12.0	578	88.0	92	13.8	575	86.2
2000–4999	53	10.8	438	89.2	56	11.0	455	89.0
5000–9999	8	5.9	127	94.1	12	8.8	125	91.2
10000–49999	4	3.5	111	96.5	7	5.8	114	94.2
50000–x	1	4.8	20	95.2	2	9.5	19	90.5
Total	390	12.5	2741	87.5	461	14.7	2673	85.3
<i>Urban communities</i>	14	6.4	204	93.6	19	7.6	232	92.4
<i>Rural communities</i>	376	12.9	2537	87.1	442	15.3	2441	84.7

Source: The author own compilation based on <http://www.valasztas.hu>

women are present'. The geography of this phenomenon in Hungary suggests a further correlation, namely the less prestigious the place is and the less political and economic power it possesses, the greater the probability will be of women in a position with a responsibility for addressing the issue of poverty in their communities.

Gender and Spatial Inequalities in Daily Life

The above analysis of correlation between society and space, although aimed at helping to identify persistent inequalities in society in the era of transition, can only be considered a starting point. It is indeed the spatial inequalities investigated that draw attention to issues that require further research, including the extent to which various social groups in various regions, cities and villages internalise the advantages and disadvantages arising from the uneven development of post-socialist transition differently; the way gender inequalities are reproduced in daily life. For the purpose of our qualitative analysis, we will, for the time being, rely on the findings of three case studies.

(i) *Households* have become increasingly important factors of spatial development since the political transition. The question is whether or not the gendered nature of uneven spatial development on the sub-national scale influences gender relations on the household scale. An empirical study⁹ in which we compare

the strategies of adjustment adopted by rural households in Győr-Moson-Sopron County, one of Hungary's most advanced counties in the North-West and in Békés County, one of the most 'backward' counties in the South-East¹⁰ is an answer to the above question.

Our studies confirm that three forms of adjustment to increasingly difficult macro-economic conditions have become widespread: certain types of extra work (supplementary agricultural activity, certain consumer goods produced and services replaced by something else in the household, and so on), and a reduction in consumption and use of external aid.

The selection of household survival/livelihood strategies is heavily influenced by differing spatial opportunities. The main difference between Győr-Moson-Sopron and Békés Counties in terms of the strategies adopted is that in Békés County employment opportunities and, hence, chances of extra work are far fewer and slimmer respectively. As to decision-making on livelihood strategies, the impact of the proximity of the state frontier is of no special importance in Békés County, except perhaps in one village, where the illegal employment of workers from Romania by hothouse owners is relatively common. By contrast, along the Western border, most households expressly count on the proximity of the state frontier in their responding to changing external circumstances. Although less emphasis was laid on the urban-rural dichotomy in our studies, it can be identified in the various types of adjustment, especially in areas that are a long way from cities. Interviewees refer to this mainly in connection with the scarcity of job opportunities and the difficulties of commuting. We can conclude that those living in disadvantaged regions face not only greater economic difficulties, but also the fact that the number of tools of adjustment at their disposal is more limited. Regional and rural-urban inequalities produced by capitalist uneven spatial development are reproduced at the household scale.

Life stories also reveal that *survival strategies* do not necessarily mean equal sacrifice on the part of household members. When they opt for a reduction in consumption, for example, many decide not to purchase electrical appliances that would otherwise save labour (involving jobs done typically by women) in the household. Moreover, occasional household appliances (e.g. automatic washing machines that use a lot of water), already purchased, are no longer used. There are a few cases which confirm that the 'economic advantages' thus gained lead to tension in gender relationships, signalling the relativity of the rationality of action and choice (see also in Wheelock and Oughton 1996). The fact that for many today childcare benefit is the only source of income, i.e. the only possible response to difficulties, has led to changes in gender roles relative to what they were prior to the transition period. It is true that there are a lot of women who are unwilling to have a baby just to be eligible for such benefit, even though they may want to have further children. Nevertheless, we cannot fail to see that, given the current social welfare system, for people in the lowest income brackets whose plans do not include sending their children to universities or colleges, having a third child may be a kind of survival strategy¹¹. Our findings suggests that there is an increased chance that impoverished working class families living in the regions in question can only adjust

to harsh economic conditions, which are harsher in the South East than in the North West, through the resumption of traditional female roles.

(ii) Compared to them, what is happening in the segment of *private entrepreneurs*, a constituent of the middle classes, new actors (players?) of new capitalism? What lessons can be learnt from the adjustment of their families to the new socio-economic order in respect of the correlation between uneven spatial development and unequal gender relations? In order to get nearer to the answer, we did further research in the border villages in the above two regions, adopting a qualitative method.¹²

Unlike what Lengyel and Tóth (1993) proposes, i.e. that women's propensity to start a business was more robust than men's at the time of the political transition in Hungary, the life stories of our interviewees paint a more subtle picture. It is far from being a proven fact that it is female propensity that underlies the setting-up of female businesses. It may well be the case that they turn their 'husbands' dreams' into reality. No matter with whom responsibility rests for the final decision, the relationship between female entrepreneurs and their husbands seems to affect - whether directly or indirectly - their decision on starting a business. Gender relations on the household scale are unequivocally interwoven with those on the national scale, i.e. with women's lower pay compared to men's and gender roles that are accepted at a macro-social level.

Businesses vary from one proprietor to the next, likewise from one proprietress to the next. One such difference is that, compared to North West Hungary, the number of the businesses set up out of necessity is higher, and their establishment took longer (Momsen 2000). However, for businesses both regions have one thing in common, namely that adjusted to *rural conditions*, the businesses that our interviewees run are done, in wholly or part, in the home or in the vicinity of the home. As a result of the combined effect of the rural scale and specific gender relations, an overwhelming majority of the husbands concerned perceive their wives' businesses as an opportunity of their wives' staying at home and tending to traditional female duties, whether women themselves think similarly or not.

The narratives of our male and female interviewees clearly substantiate the point that the traditional *division of work* prevails in their families in both regions. This division of work is often still associated with distinct realms of the micro-space of the home, with a sharp line demarcating feminine housework 'inside' and masculine work 'outside'. This perception, the true interpretation of which is mainly possible in a rural context, was present in both regions surveyed, though in the South-Eastern border region women actively participated, sometimes even more actively than men did, in animal husbandry and horticulture, i.e. work round the house. In contrast, only a few men did housework, and very little at that. While men rarely bothered to find an excuse for their non-participation, their wives sometimes did so for them, 'I can manage inside, and there's enough for him to do outside'. Although women did not deem such division of labour as a normal course of things, they sounded as much resigned as they sounded plaintive. As one of them put it, 'I've already given up'.

In essence, the *village* seems to foster traditional gender roles. As a woman living in a village along the South Eastern border put it, 'No, offhand, I can only remember

ten men at best who have lifted this burden from their wives' shoulders. Unfortunately, this is still very much the case in the villages.' This finding of our studies is also very likely to apply to places other than the villages in our sample area. A survey (involving 1,023 persons in Hungary) conducted in 2002 revealed that women spent a national weekly average of 27.7 hours doing housework, compared to men's 11.0 hours. A full breakdown of these figures clearly reflects settlement hierarchy: women in the capital city and county seats spend a national weekly average of 23.3 and 23.2 hours respectively doing housework, while for those in other towns and villages it was 27 and 34.2 hours, respectively (Blaskó 2002). These figures show clearly that the urban and rural scale (relative to each other) makes a difference in the gender division of work at home.

(iii) Gender inequalities on the national scale – as is clear from the above – penetrate the daily lives of families. Patriarchy on the household scale in turn affects *the gendered nature of local politics*. Our third project¹³ on female participation in local government in various types of settlements and regions found evidence of this correlation in several careers (Timár 2004).

One of the most obvious lessons that can be learned from the political careers of our interviewees is that in the struggle for power within political parties, irrespective of political affiliations and values, women lose to men. As the woman mayor of a large city put it,

'I don't think the time has come yet. A fierce battle is going on, serious material and financial interests are at stake. When this period has passed, and there is nothing left to steal, maybe there will not be so much at stake and women will have a better chance.'

In larger towns, where involvement in local politics receives a satisfactory amount of publicity and political parties recruit their MP candidates in large numbers, women have a very slim chance of getting into the top jobs. In villages, where they stand a better chance of becoming representatives, non-alignment with parties is considered to be of value. People who declare their independence may find an easier way up the political career ladder. This is why they cannot get into 'politics at the national level'.

The question is how women themselves internalise patriarchal relations and can stand up for their interest, if at all. In the era of socialism, the word 'feminism' had negative connotations and patriarchal circumstances did not come up in social and political discourse. This situation was fairly common across East Central Europe. This also explains, to a certain extent, why the first response of women in local politics is in line with the 'lower sensitivity' of the post-socialist countries, which can be observed with the injustices and discrimination against women on the grounds of sex (Neményi 1994). These women say that they do not feel they are being discriminated against on the grounds of sex. However, when the careers of our interviewees are described, sooner or later a large number of examples are cited which demonstrate the dissatisfaction of women politicians¹⁴. These examples are partly related to their public involvement, but most have to do with the selection

process for some positions, the analysis of their public career or their ‘position of minority’. Some of the interviewees mentioned that, even outside the arena of politics, in the realm of work they saw that women had to work harder for the same amount of pay. As one of our interviewees summed it up, ‘Nowadays neither society, nor male politicians recognise women as they ought to be recognised.’

Conclusion

Production of space in Hungary’s post-socialist transition is also occurring against a backdrop of unequal gender relations, which it reproduces continuously.

The economic transition placed both men and women in a quandary in the labour market. One of the strongest factors of differentiation (in addition to educational background: see Meusburger 2001) is the difference in the number of opportunities for access to paid work in cities and villages, which in turn further ‘fine-tunes’ differences between man and man and woman and women. Women living in villages experience aggregate disadvantages in the county labour markets, which are heavily influenced by their geographical location.

By contrast, when it comes to *local political decision-making*, due to the detailed workings of the power pyramid in a settlement hierarchy, it is women in large cities that are left with little room for manoeuvre. Extremely low female participation (even by East Central European standards) in parliamentary decision-making in turn affects gender relations on the local and even the household scale:

- The continuous reproduction of patriarchy on the household/family scale, supported by patriarchy on the national scale, contributes to the reproduction of the gendered nature of local policy-making on both the urban scale and the rural scale.
- Party politics on the national scale ‘penetrates’ the urban scale, where it results in unequal gender relations, and vice versa: politics on the urban scale contributes to the reproduction of gendered party politics on the national scale (Timár 2004).

On the rural scale – although for different reasons and in different forms – the adjustment of poor families in disadvantaged regions to a transition phase and the generation of entrepreneurs (as new social agents) may in some cases strengthen the traditional gender division of labour.

NOTES

¹ The delay is likely to be social system specific. According to an international survey in the early 1990s, East Central Europe was terra incognita in feminist geography (Monk 1994).

² Data from Frey’s (2002) study formed the basis for further calculations.

³ Data from Frey’s (2005) study formed the basis for further calculations.

⁴ ‘The activity rate is the proportion of the population in a particular age group category who are either in employment or formally unemployed. The female-male activity rate ratio therefore expresses the female activity rate as a percentage of the male activity rate’ (Perrons 1998: 23).

- ⁵ This similarity is also reinforced by detailed calculations made by Meusburger (2001) on changes in men's and women's age-specific employment rate in Hungary between 1980 and 1996. When compared to Duncan's (1996) analysis for 1990, they seem to reveal that Hungary satisfies the requirements of Duncan's first type, which includes countries such as the former GDR, Sweden, France, Denmark, where 'Women are in paid work over most of their working lives, with increasing rates for the youngest women as training or education ceases, and decreasing rates for the elderly as retirement takes place.' The graph of women's participation rates in the paid labour force, according to age in these countries is the same as that for males in all Western European countries (Duncan 1996: 76).
- ⁶ Owing in part to the characteristics of the structure of the 2001 census data published by the Central Statistical Office in 2004, we studied the proportion of those in *employment* in the 15–59 age group in the corresponding population. Those in employment include active wage earners and those holding a job while receiving childcare benefit, pension or social benefit. But they exclude the registered unemployed, who are, however, included in the category of the economically active population. The reason why we performed calculations for 1996 on the economically active population – as was analysed in the previous section – was to make a comparison with the international study cited. Since then this practice of allowing for those in employment has become more common. Furthermore, in contrast with the European average, women in Hungary are underrepresented in the unemployed relative to men, which modifies the rate mirroring gender inequalities in a direction that is the opposite of what characterises the developed economies in Europe. Analyses of the changes that have occurred in the labour market since 1996 also reveal that the number of the economically inactive women is rather high (Frey 2002). This holds true especially for backward regions with small villages (see Bihari and Kovács 2005; Váradi 2005), where – due to a very high level of male unemployment – the difference between the male and female unemployment rate is higher than average. Taking into account the differences in the methods of calculations for 1996 and 2001, we may conclude that, when making use of the employment rate, the next two sections paint a somewhat more differentiated spatial picture than if the activity rate were used. But whatever the rates we apply, the validity of correlations outlined still remain valid.
- ⁷ Considered to be the highest; corresponding ratios in Latvia and Poland are 21.0% and 20.7%, respectively.
- ⁸ Although the above figures, disclosed in the 1995 Human Development Report, are still considered to be the most up to date, they represent a time lag compared to the statistics trying to 'satisfy interest' in parliamentary elections.
- ⁹ A project on households' survival strategies was partly sponsored by the Hungarian National Research Fund (OTKA No. T020443). The survey was carried out in cooperation with Irén Kukorelli Szörényiné.
- ¹⁰ The survey included 3 villages of different size, level of development and geographical location in both counties. In 1997 we conducted a questionnaire survey including 600 randomly, but regionally selected households in the 6 villages, and asked 35 women in the course of structured in-depth interviews about their families, places of work and educational background, their spouses, division of labour in the home, survival strategies and their own

role in such strategies, how they perceived the period of transition and its effects and how they thought the geographical location of their settlement and region affected their lives.

- ¹¹ Younger female interviewees included a relatively large number of mothers with three children. Eligible for maternity allowance, a type of benefit that they can apply for provided that three under-age children are raised in the family in question, they were all staying at home. For their families, low as this regular income may have been, maternity allowance was an important source of income.
- ¹² Nine interviews and two focus group discussions complemented a questionnaire survey on men and women entrepreneurs in the border villages in Békés and Győr-Moson-Sopron counties. The survey was sponsored by the National Science Foundation, USA, supervised by Janet Henshall Momsen and conducted by Irén Kukorelli Szörényiné and the author of this paper. Lastly, life-story interviews in 2000 and 2001 were made with 10 owners of 10 businesses and the husbands of 8, thus making a total of 18 persons (Momsen *at al* 2005).
- ¹³ The project was supported by the Open Society Institute. A preliminary national questionnaire was conducted with the co-operation of the Psyma Hungary Public Opinion Research Institute and the Foundation for the Women of Hungary. In the following interview-based study 15 female and 7 male local councillors were interviewed in 4 types of settlements in regions (and districts of Budapest) with different characteristics. The interviews were conducted by the author herself and Gabriella Baráth, Mária Neményi, Gyöngyi Schwarcz, Monika Mária Váradi, Gábor Velkey and Violetta Zentai in 2001.
- ¹⁴ This provides an answer to the question posed by Neményi (1994). She really sought to determine whether women in post-socialist countries really faced less discrimination on the grounds of sex than women in Western Europe did, or whether it is only their threshold of tolerance that is higher due to the above-mentioned social characteristics and the less mature concepts they have of democracy.

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A Sector Born? Non-profit Organisations in Hungary

Márta Nárai

Political, social and economic changes in the 1980s and 1990s were conducive to the emergence of civil organisations in Hungary as well¹. With their number soaring, there has evolved a rather heterogeneous non-profit sector that now enjoys considerable social support and has increasingly great economic potential. The number of non-profit organisations grew 5.5-fold in the 1990s. Central Statistical Office (CSO) data reveal that currently there are 46,263 non-profit organisations in operation, with 4,913,697 (private) persons as their members (The Non-profit Sector... 2003: 11, 176). Qualitative development went hand in hand, to a growing extent, with a rise in the number of their roles and in their economic clout. Numerous civil associations provide a framework for social empowerment and a forum for the self-actualisation of tens of thousands of citizens; they are a scene where autonomy, solidarity and philanthropy are practised and needs and wants other than standard ones are articulated and satisfied. In certain areas (e.g. social care, culture and education) they act as an alternative to government institutions and offer additional opportunities.

This paper aims at outlining, in a global context, the current state and characteristics of voluntary organisations in Hungary. It further aims at providing a comprehensive picture of the non-profit sector in Hungary and of the crucial factors influencing its development and possibilities. Finally, it discusses the possibilities of the integration of the organisations constituting the sector into the system of services.

Emergence of the Non-profit Sector in Hungary

During the socialist era voluntary organisations established through civil initiatives were only allowed to operate in those politically neutral areas which were either tolerated or prioritised by the political power. The majority of these organisations were active in sports and leisure activities, and volunteer fire brigades. Foundations were declared ‘undesirable’ in 1948. In consequence, no foundation was allowed to be established for decades. Furthermore, successful associations that had been operational before World War II were dissolved.

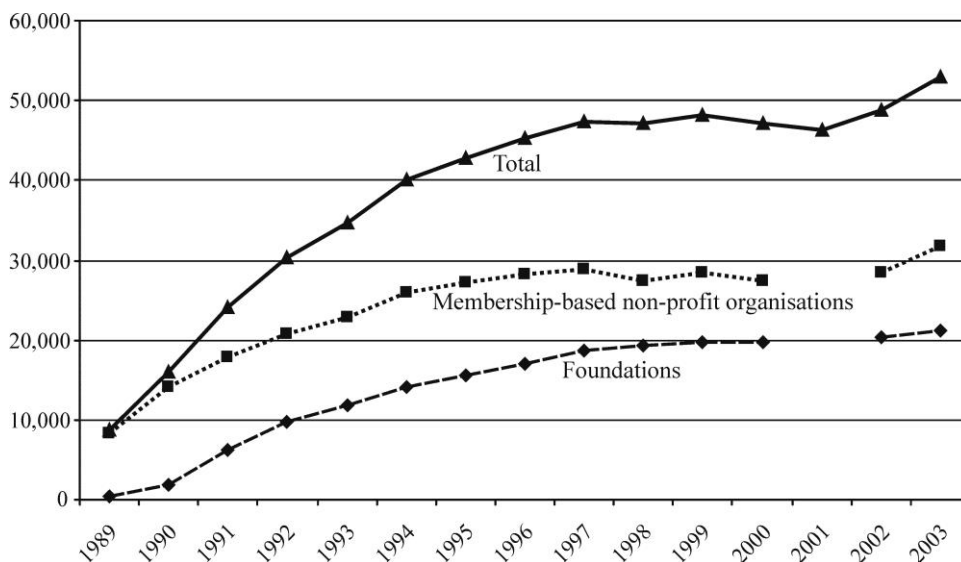
The ultimate engine of the development of the civil sector was the restoration of the political and legal legitimacy of self-empowerment in the late 1980s as well as the provision of a legal framework and legal guarantees, including the restoration of the right to establish foundations (1987), the Act on the Right of Association (1989) and the recognition of civil organisations as legal persons. Political détente in the 1980s led to a steady increase in the number of voluntary organisations. After the political regime change they multiplied and developed in a manner that surpassed all expectations, proving the need for this sector.

The most dramatic growth occurred at the turn of the 1980s and 1990s and in the early 1990s, when a benign regulatory environment, relatively relaxed rules stipulating less red tape, the opportunities for and the freedom of self-empowerment, which had not been experienced for decades before, were especially conducive to the emergence of these organisations. Growth slowed down somewhat in the second half of the 1990s. It seems that the stage of intense growth had concluded by the end of the decade. Current statistics reveal a growing number of organisations which are either out of operation or have been disbanded altogether. According to current CSO estimates, the total number of foundations, associations, clubs and social organisations in operation in Hungary is 46,000 (The non-profit sector... 2003: 11), nearly 5.5 times higher than 15 years ago (Figure 19.1). The magnitude of change is especially striking in the case of foundations: their number in 1989, 1992 and 2000 was respectively 400, 10,000 and 20,000, representing a 50-fold increase over a period of 10 years. A sharp rise in their number has also led to a substantial increase in their proportion within the sector. Today close to 40% of non-profit organisations operate in this organisational form. Nearly half are associations (in 2000: 47.6%), while the combined proportion of quasi-governmental non-profit-making organisations (i.e. public law foundations, public law associations and public benefit companies) is close to 6% (Non-profit organisations... 2002: 26).

A considerable rise in the number of civil (non-profit) initiatives was attributable mainly to changing needs and wants, in addition to a rapid adjustment to discontinuation in historical development. Confidence in services delivered by government institutions and in their standard and quality decreased significantly. Demand for tailored, structured and customer-oriented, rather than uniform and impersonal, services grew. Moreover, a number of new needs (e.g. legal advocacy and environment protection) were articulated on a national scale. Some of the new needs were associated with the problems (e.g. social issues, unemployment and homelessness) that arose as a consequence of social and economic changes. Solutions to them were sought and provided first, and for a long time exclusively, by non-profit organisations.

Thanks to the processes that occurred, civil initiatives are now common in almost all settlement types. Through a heightened self-empowerment activity of the population, non-profit organisations add a special touch to urban and rural life. As the central government and municipalities relinquish some of their responsibilities, so some of these organisations may gain in importance or have an especially strong presence in certain areas (e.g. care for the elderly and social care).

Figure 19.1 Changes in the number of non-profit organisations in the 1990s



Source: Author's compilation.

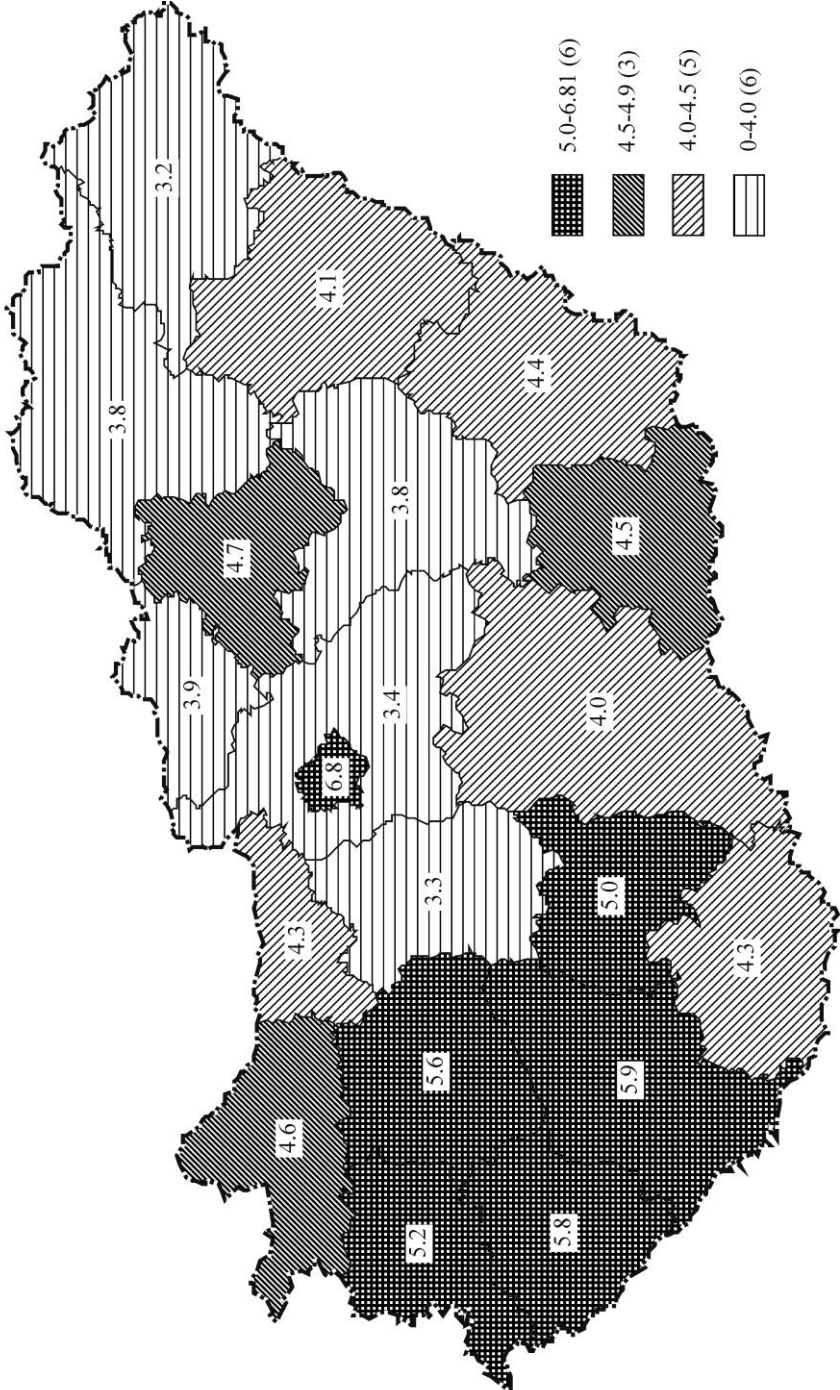
Territorial Distribution of the Civil Sector

As regards the territorial distribution of the civil sector, most voluntary organisations, whether foundations or membership-based non-profit organisations, are concentrated in Budapest (26%), and, due to the proximity of Budapest, in the Central Hungarian region (33.6%). Their number is much lower (in 2000: 4,800–5,700) in the remaining regions, with a resultant lower, 10%–12% proportion. Thus, in this respect, there are no marked differences between them. Even regional and county ratios have remained largely unchanged over the years. Thus, figures for e.g. the late 1990s were almost identical to those for the mid-1990s. Organisations have only increased in number. In terms of their distribution, there has been no spatial rearrangement. Thus, growth rate has been nearly identical across the country.

The number of voluntary organisations per 1,000 residents paints a much more detailed picture, as, in addition to providing absolute numbers, it reveals more and reflects the self-empowerment activity of the population better. (Figure 19.2)

The advantageous position of Budapest (6.8) and, due to its proximity to the capital city, of the Central Hungarian Region (5.6) is obvious in this area as well. However, this advantage is (far) less significant than the advantage that they have in terms of the absolute number of organisations. After the Central Hungarian Region, the civil sector is the strongest in Western Transdanubia (5.1) and Southern Transdanubia (5.0), while it has the weakest presence in the Northern Great Plain (3.7) (the national average: 4.7).

Figure 19.2 Number of non-profit organisations per 1,000 persons in a breakdown by counties in 2000



Source: Based on Non-profit organisations ... (2002, p. 56). Map images by Tamás Hardi

Considering major settlement types, it is a safe assumption that voluntary organisations were present in every city and town in the second half of the 1990s, with their number ranging from 10 to 50, and even exceeding 100 in county seats. They have also been integrated into rural life, with their number varying between 4 and 9 in larger villages and 1 to 3 in smaller ones. The majority of these organisations are either fire brigade associations or sport clubs. As most foundations (one-third) are involved in education, they are established primarily in regional centres or cities where the necessary educational basis and potential are available. As a rule, voluntary organisations operate as associations or other social organisations (e.g. clubs and circles).

The way voluntary organisations gained ground reflected the characteristics of the settlement network. Initially, they were mostly confined to the capital city, county seats and larger centres. Later they also had an increasingly strong presence in small towns and medium-size cities. Villages meant the final stage of development, though it is still very much the case that there are no civil organisations in the smaller ones. This points to what is called hierarchical diffusion in the geographical expansion of the sector (Rechnitzer 1998: 541).

Main Operational Characteristics of Non-profit Organisations in the 1990s

Special Duality in the Non-profit Sector in Hungary

There are certain components of the Hungarian non-profit sector that cannot be fully grasped or defined within the international terms of reference². The reason for this is that they cannot be deemed as civil organisations either in respect of their founders or their organisational characteristics. They are not grassroots organisations, i.e. they were not established of the free will of citizens. Rather, they were set up on the initiatives of municipalities and government organisations or through the transformation of budgetary units. Examples include public law foundations established by the government, public institutions reclassified as public benefit companies and public law associations, the establishment of which is stipulated by the law³. Literature refers to them as quasi non-governmental organisations (QANGO) (Kuti 1991, 1997; Harsányi 1997; Bartal 1999). As non-profit organisations, they are part of the civil society and, though they are generously funded by municipalities and the government, they are 'professionally independent, operate in a manner that is controlled by an independent public body, have their own assets and are entitled to conduct entrepreneurial activities. The private donations either collected by or offered to them qualify for favourable tax treatment' (Kuti 1991: 29).

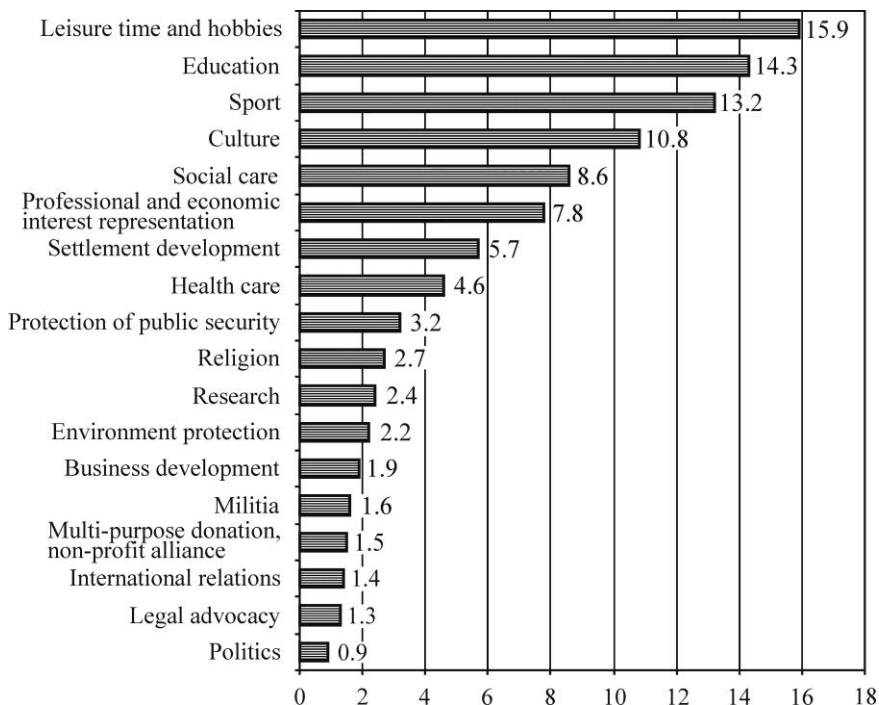
Several researchers (e.g. Harsányi 1997, 1999) pointed out duality, one of the characteristics of the Hungarian non-profit sector (on the one hand, civil organisations are dominant in terms of their number, but not so in terms of the resources available to them; on the other hand, a small number of public law foundations and public benefit companies with significant funds for their

discretionary use and in a cosy relationship with the government or municipalities), and the dangers implied in it. Such duality may become especially dangerous when transformation processes, experienced hitherto mainly in culture, in which budgetary units are transformed into non-profit organisations (public benefit companies, in particular), becomes standard practice in other public service sectors (e.g. health care and higher education), changing the profile of the non-profit sector (Harsányi 1997).

Structure of Activities

The organisations of the non-profit sector are active in all areas of life from culture and education through settlement development to philanthropy (charity and donation) (Figure 19.3), enriching human life and providing help. Rationales behind their establishment are manifold, including considerable social powers and a wide variety of needs (e.g. people with similar interests wanting to spend their spare time together, finding solutions to shared problems, mutual assistance, helping those in need, protection for endangered heritage, upgrading neighbourhoods, settlement development, support for major fixed investment projects and professional interest representation, etc.).

Figure 19.3 Hungarian non-profit organisations in a breakdown by main profiles in 2000 (%)



However, the current structure of the Hungarian non-profit sector is not necessarily ideal (Figure 19.3). The dominance of leisure time and sports activities is unmistakable (close to one-third of the organisations are active in such activities), which is, in part, a legacy from the state socialist times⁴, when civil organisations were allowed to operate in areas that were either tolerated or even prioritised by the political power; thus, in addition to voluntary fire brigades, only organisations involved in sports and leisure time (sometimes cultural) and hobby activities were allowed to be established. Even today it is mainly associations and other membership-based non-profit organisations (e.g. clubs and circles) that operate in these areas. With cultural organisations added to them, 40% of all organisations can be found in these areas, i.e. the dominance of culture and recreation is even more unambiguous. Although the importance of these organisations cannot be called into question, most proceed on behalf of and in the interest of their own members, rather than serve the public in the narrower sense or provide welfare services.

The organisations engaged in educational activities as their main profile also have a strong presence today. Foundations play a particularly important role in this area. A much lower proportion of Hungarian non-profit organisations (8.8%) are active in social care, a traditional realm of charity and a prioritised area in EU member states as well.⁵

Figure 19.3 reveals that the proportion of organisations in environment protection, business development, international relations, philanthropy and legal advocacy is very low (around 2% or below). Their very number could reflect their importance.

There are significant differences in the distribution of non-profit activities by settlement categories. Foundations and associations active in education, arts and social and health care as well as organisations of professional interest representation were in large part established in county seats and large cities in the 1990s (Rechnitzer 1998). Due to a robust rise in the number of non-profit organisations and their increasingly strong presence, along with a heightened activity on the part of the rural population, voluntary organisations are now also active in smaller towns and villages too, in a much smaller number, though. Non-profit organisations in certain areas (e.g. education and research), however, continue to be concentrated in major cities and centres where the necessary conditions are available. Organisations in areas such as culture, militia duty (instrumental in heightening the sense of public security), the protection of cultural and environmental heritage of the individual settlements and settlement development are now operational in all settlement types (including villages) in the provinces as well.

Voluntary Work or Paid Employees?

The World of Voluntary Work – Social Integration

Main characteristics of non-profit organisations include volunteering, voluntary work and the inclusion of volunteers in non-profit activity.

Through voluntary work or active participation in the operation of voluntary organisations or in the provision of the services by them, voluntary organisations help and enable individuals to participate in community and social activities and in the operation of community institutions, while strengthening the ties of such individuals with the society (Harsányi 1997; Kuti 1997). This plays an especially important role in the life of the unemployed, the long-term unemployed, in particular, and old-age pensioners of advanced age, who are, nevertheless, willing and able to work. Their inclusion in the world of voluntary work keeps them 'inside the society'. Voluntary work enables the jobless to preserve their professional skills and keep in touch with others; moreover, it helps them internalise the feeling of 'I'm no longer needed in the labour market', as it proves that their help, expertise and work are needed, in a different situation or environment, however.

In short, voluntary organisations articulate and advocate for the interests of various social groups, identify and fulfil social needs as they arise and play an integrative role.

The number of volunteers in the non-profit sector exceeded 400,000 at the end of the 1990s. According to a CSO estimate, the value generated by voluntary work was close to HUF 18 billion. Citizen help is especially important for smaller organisations; in the case of business entities with a maximum annual revenue of HUF 500,000, the financial worth of voluntary work may be many times over their actual revenues (Non-profit organisations... 2002: 44, 167). Although, compared to a year earlier, the number of volunteers has grown by approximately 30%, their proportion is still low (4%).⁶ One of the major objectives of the Hungarian non-profit sector in the future is to recruit potential volunteers (e.g. the elderly and the unemployed) and include them in the operation of non-profit organisations.

In Hungary over two-thirds (or 69%) of the organisations can rely on volunteers (the corresponding figure for the EU is 81%), which is a markedly higher proportion than in, for instance, 1999, when it stood at 41%. The number of volunteers is the highest in the following areas: leisure and hobby activities, social care, sports and settlement development (Non-profit organisations... 2002: 166, 169). Citizens' decisions whether to get involved in voluntary work or not is significantly influenced by the civil character of the organisations, as was pointed out earlier. Impersonality, highly institutionalised nature or cosy relationship with the central government does not appeal to volunteers. Thus, practically no volunteers work for public benefit companies; their presence is negligible at public law associations or public law foundations. By contrast, transparency, networking, personal ties and membership, characteristic features of smaller communities, are beneficial to voluntary work.

Role in Employment

Voluntary organisations represent significant economic clout and play an increasingly important role in job creation, as, in addition to organising voluntary work, they employ a growing number of persons full or part time.⁷

Hungarian non-profit organisations as employers or job creators have not assumed as much importance as their Western European counterparts.⁸

Voluntary organisations provided registered employment to over 30,000 persons in the early 1990s. By the end of the decade the number employed had multiplied (in 2000: 80,780 persons). According to a CSO estimate, as many as 82,484 persons had primary or secondary jobs in the Hungarian non-profit sector in 2001.

Allowing for international comparison, actual data for those in primary jobs reveal that their number is now over 65,000, accounting for approximately 2% of the total number employed. In economically less prosperous regions, the establishment and development of non-profit organisations both as participants in social economy and as potential job creators should be facilitated.

Although the number of persons employed by the sector grows annually, most organisations employ non-paid workers. Only 12% of the organisations offer full-time primary jobs; a further 4% offer part-time employment or secondary jobs. The non-profit sector is no stranger to contracting invoiced labour for certain assignments rather than offering permanent employment, a widely adopted practice in the economy as a whole. This type of 'employment' is characteristic of 12.7% of all non-profit organisations.

Over half of those organisations that offer primary jobs employ one or, at best, two persons. The overwhelming majority (46%) of persons in full-time primary jobs work for associations. The proportion of the organisations offering full-time primary jobs is the highest in business development (41.7%), among non-profit associations (30.7%) and organisations of professional and economic interest representation (22.7%) (Non-profit organisations... 2002).

Whether or not voluntary organisations employ paid workers depends in large part on their size and the financial resources available for them. Another key factor is whether the organisation in question conducts entrepreneurial activities. Of such organisations, every second employs paid workers (as well) (Vajda 1999: 630). In addition to available financial resources, the type of the settlement where voluntary organisations are set up also affects employment opportunities. Thus, for instance, territorial concentration by settlement type is significant. Over 40% of the paid workers employed by non-profit organisations work in Budapest and 28% in county seats. Only 9.6% work in villages (Non-profit organisations... 2002: 155), which can be attributed to the fact that the possibilities of the non-profit sector are much better and the size, degree of institutionalisedness and revenues of the sector's organisations are higher in larger centres.

Territorial differences stem from the characteristics of the settlement network (e.g. a high number of small villages and townships in Western Transdanubia; voluntary organisations rarely act as employers in townships or small villages), on the one hand; on the other, in prosperous regions employment opportunities are more plentiful, and better-paid private sector employment is more attractive.

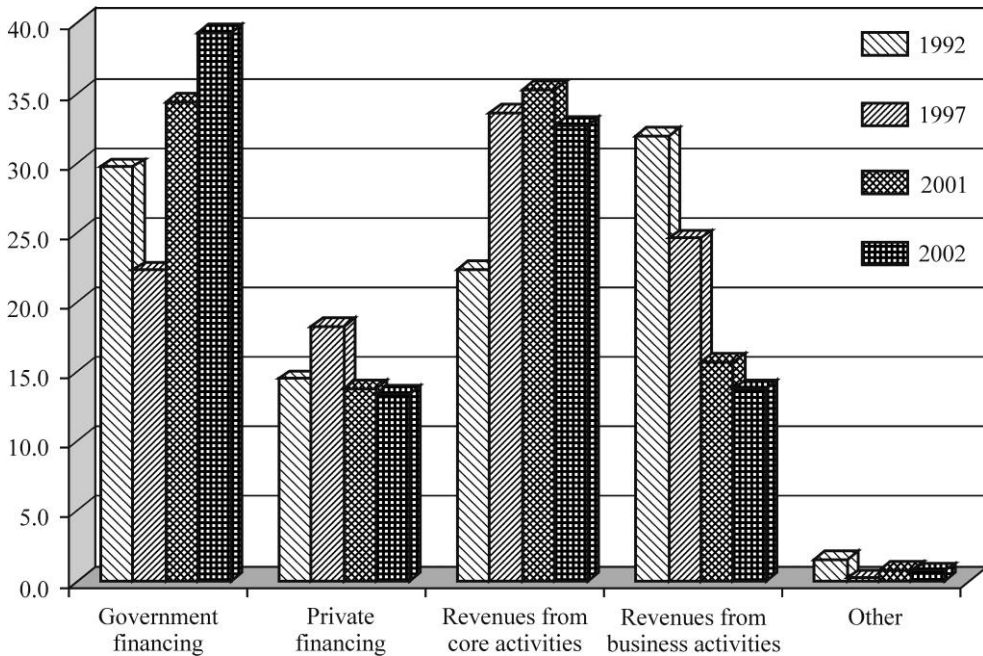
Major Factors Determining Organisational Development and Possibilities: Economic Background – Regulatory Framework

Financial Characteristics of the Sector

Key to smooth operation and the ongoing and reliable fulfilment of tasks is stable and readily available financial resources. The vulnerability of non-profit organisations is reflected by the fact that their income structure is all but balanced. Most have one single source of funds to finance their operation. Only one-third have ‘put their eggs in more than one basket’. Still others go without funding in certain years. This, however, does not necessarily lead to suspended operation, as they can rely on in-kind contribution or voluntary work. Even so, this renders their day-to-day operation harder and more unpredictable.

Increase in the revenues of the non-profit sector has been close to 4.5-fold since the early 1990s to date. In 2001, an estimated HUF 537 billion flowed into the third sector (in 1993: HUF 121 billion).

Figure 19.4 Changes in the distribution of the sources of revenues in the non-profit sector



Source: Hungary's Decade Book (1998); based on The non-profit sector... (2003, p. 32)

Non-profit organisations can rely on two sources of funds for their operation. One is their own funds (e.g. revenues from core and business activities and membership fees, etc.). The other is external financing (i.e. government funding and private financial support). Although the most important source of financing is revenues from core activities for the sector as a whole, Figure 19.4 reveals that government funding approximated to it in both amount and proportion in 2001.

The share of revenues from core activities in total revenues grew steadily in the 1990s. As a result, over two-thirds of the financial resources at the disposal of non-profit organisations are from their core activities. In contrast, the share of revenues from business activities has declined continuously over the years. Thus, they are no longer the most important source of financing. The share of government financing in total revenues has fluctuated the most sharply. It stood at 30% in 1992, then flopped and finally stabilised at 22% in the mid-1990s. It has risen sharply since 2000 (Figure 19.4). This is ascribable in part to the fact that the issue of strengthening links between the state and the non-profit sector has been accorded higher priority, and in part to a rise in the number of public law foundations and public benefit companies, which obtain heavier government financing than civil non-profit organisations. Despite this rise in government funds, Hungarian non-profit organisations still have to make do with less generous government support than their Western European counterparts.⁹ It should also be borne in mind that the non-profit sector carries greater weight in welfare, social care, the delivery of services and the production of goods in Western European countries than in Hungary.

The share of private donations in the financial resources available for the sector is less significant in most EU member states (generally, it varies between 3% and 9%¹⁰). Relative to this, it is higher in Hungary (Figure 19.4), though the share of this source of financing in total revenues has fallen from close to 20% to 14% in recent years.

Regulatory Framework

The operation of non-profit organisations is based on regulatory and government policies which are predictable and do not change annually; which perceive as indispensable and institutionalise civil control over central and local authorities and the division of labour and co-operation between the central government, municipalities, for-profit and non-profit organisations. They respect the independence of non-profit organisations, increase the financial support granted to them, make support contingent on political considerations and count on their participation in the delivery of public services.

Changes to the economic and legal regulations governing non-profit organisations were frequent and numerous in the 1990s. Based on the approach adopted by Éva Kuti, a renowned expert on the sector, in terms of regulations, the period between 1987 and the late 1990s can be divided into five stages¹¹ (Kuti 1998); the sixth is the present.

In the early 1990s, the economic and legal regulations governing the sector were benign and liberal. Registration was simple and free from red tape; organisations only had to comply with a few record-keeping and reporting obligations, which,

however, gave rise to various forms of wilful misconduct. This recognition led to a tighter fiscal policy and tougher tax legislation on the sector and to a sequence of measures that restricted earlier preferential treatment considerably. In the mid-1990s, when new quasi-governmental non-profit organisations began to emerge, public law foundations, which belong to this category, fell under more favourable tax treatment than did private foundations. Unlike earlier years, the second half of the 1990s saw some changes in tax legislation on the sector, which were beneficial to non-profit organisations (at least to some). Effective from 1997, Act CXXVI of 1996 on the Use of a Specified Amount of Personal Income Tax in Accordance with the Taxpayer's Instruction (or the 1% law in public parlance) is of special importance, as it allows taxpayers to donate 1% of their personal income tax to a non-profit organisation of their choice, provided that it complies with certain legal requirements. Statistics reveal that, in the first year after its entering into effect, this law unlocked HUF 1.8 billion in supplementary revenues for non-profit organisations. Today the total annual amount raised by 1% giving exceeds HUF 6 billion (www.apeh.hu). Although there has been an ongoing rise in the number of valid dispositive declarations and beneficiaries, only a low proportion of taxpayers make use of this form of private giving. Many are unaware of the significance of the law, i.e. that it allows citizens to have a say in how government funds are allocated, since the 1% giving means indirect government financing.

A further advantage is that, unlike tax legislation, the 1% law stipulates that associations qualify as beneficiaries. At the outset, distinction was made, in terms of taxation policy, between public benefit organisations and those that only indirectly serve the public interest. For a very long period of time, this distinction was based on rather crude differentiation. A line of demarcation was drawn between foundations and associations, the reasoning offered being that foundations were, by definition, allowed to be established only for public interest purposes¹². Thus, the tax regime was less benign to associations and membership-based organisations with regulations similar to those governing associations than to foundations (e.g. only donations to foundations were deductible first from the tax base, then from the tax payable). Only in the late 1990s did regulatory policy on the sector realise and codify that the demarcation between associations and foundations did not necessarily coincide with the public benefit character of an activity, and that the legal form of an organisation did not reveal much about its actual activities, and even less about whether these activities served public or private purposes. Pursuant to Act CLVI of 1997 on Non-profit Organisations (popularly called the non-profit law), effective from 1 January 1998, it is usefulness to the society, i.e. the degree of public benefit, rather than the organisational form that tax regulations governing non-profit organisations allow for. Although the passing of the non-profit law was a milestone in the history of the Hungarian non-profit sector, even this law was unable to provide a uniform regulatory framework for the sector. On the contrary: it led to conflicts in several areas. Nevertheless, its importance cannot be called into question, as this law meant a major breakthrough in several respects.

In the early 2000s, as the sector entered a more mature stage, it gained in importance and assumed an increasingly wider variety of roles, so the central

government began to accord higher priority to entering into discussions with the sector and to strengthening relations with it. In order to reach this goal, the Medgyessy government set about working out a civil strategy in 2002. The final version, with significant contribution from non-profit organisations, was completed in the spring of 2003. The document calls for the revision of the non-profit and the 1% laws as well as the adoption of a law on foundations. It also set as its objective, for instance, encouraging private donation and voluntary work and raising their social prestige as well as providing more generous government support for the sector¹³.

The civil strategy paved the way for Act L of 2003 on the National Civil Basic Programme [Nemzeti Civil Alapprogram (NCA)], which was passed by the Parliament on 23 June 2003: ‘Whereas the Parliament recognises and acknowledges the need for providing government guarantees for the operation of social organisations and foundations, therefore, in the interest of ensuring the availability of financial resources in a transparent manner, based on revolving government funds and free from all party politics, it hereby establishes a National Civil Basic Programme. The objectives of the National Civil Basic Programme are strengthening the civil society, encouraging civil organisations to assume a social role as well as facilitating partnership and the division of labour between the government and the civil society in the interest of a more efficient fulfilment of government and municipality responsibilities. In order to attain the objectives set and facilitate civil society self-empowerment, the Parliament shall pass the following law.’ (an excerpt from the preamble to Act L of 2003 on the National Civil Basic Programme).

Non-profit organisations will have access to funds through NCA this autumn for the first time. In any given year the amount of government financing allocated to them through NCA is equal to 1% of the personal income tax collected in the previous year (e.g. in 2004: HUF 6.1 billion). At least 60% of the financial resources at the disposal of NCA must be used to finance operation. Funds can also be allocated to research on the sector, to service-providers, consultancies and educational and R&D institutions, etc., providing assistance with the operation and activities of non-profit organisations as well as to the publication of printed material on the sector. The allocation of funds is the responsibility of 11 elected regional and professional boards with representatives of civil organisations as their members. The management of the NCA is the responsibility of a civil council.

A Possible Future: The Consolidation of the Position of Non-profit Organisations – Participation in Ensuring the Availability of Public Services

The responsibility of organising public services lies with municipalities. In essence, laws specifying core duties qualifying as basic care only regulate the obligation to provide public services. They do not, however, stipulate the organisational framework in which municipalities must fulfil their responsibilities. As a result, other social actors are also allowed to participate in the discharge of public duties. They may assume such duties wholly or in part.

The decentralisation of services has been especially spectacular in areas like social care as well as public and general education as evidenced by non-profit organisations' stronger presence and participation in ensuring the availability of local public services and in the discharge of public duties and responsibilities. Besides the inclusion of civil participants in the provision of public services, further implications of the process of decentralisation include the resumption of the public benefit and public service activities of the churches, the adoption of the principle of financing the fulfilment of public duties in a sector-blind¹⁴ manner and the partial marketisation of community consumption (Horváth 2002: 161). A mixed welfare model based on the government, municipality, civil (non-profit organisations and the churches) and market sectors is emerging at both local and settlement levels. As well as municipalities and government institutions, other actors have also entered the services market. Municipalities are no longer the exclusive buyers or providers of public services. The decentralisation of services inevitably entails the transformation of the role of municipalities that they play in carrying out public responsibilities and in ensuring the availability and the provision of public services.

As a rule, civil organisations do not organise services through operating independent institutions, though an increasing number of non-government institutions are established¹⁵; in general, they provide supplementary and specialist services (Horváth 2002). By identifying and satisfying special non-standard needs, they also play an innovative and gap-filling (service-providing) role and offer an alternative to market services and the central provision of care. A hitherto unknown variety of services is now available in Hungary; by contrast, such services have long been commonplace in Western societies (Széman and Harsányi 1999: 43).

The inclusion of various social actors and civil organisations in the discharge of public duties also means an increase in financial resources earmarked for the provision of services. In addition to central funding, other sources of financing (e.g. private and corporate donations, and revenues from non-profit organisations' own business activities, etc.) are also available (Harsányi 1997; Kuti 1997). Obviously, increase in financial resources will materialise only if the transfer of tasks and duties is accompanied with the corresponding transfer of budgetary funds.

From the perspective of financing, the importance of the decentralisation of services lies primarily in the fact that community resources are combined through the delegation of responsibilities and outsourcing (Horváth 2002).

Despite the transfer of tasks and duties, municipalities remain responsible for the provision of public services and competent authorities make sure that the standard of service provision complies with the applicable requirements.

Current regulations allow for the transfer of the following public duties:

- public education,
- general education,
- maintenance and operation of social institutions providing personal care,
- provision of child protection services on a case-by-case basis,
- provision of specialist health care,
- community duties.

In order that public services can be delivered satisfactorily, contracts ensuring both parties' accountability must be concluded. Contracts must specify the tasks related to the provision of services, the funds assigned to such tasks and the legal consequences of failure to perform per contract. In addition to a contractual framework, expertise and trust are also indispensable. Often it is mainly decision-makers' mistrust of non-profit organisations, owing mainly to uncertainty about the sector's financial resources and unfamiliarity with non-profit organisations, that hinders co-operation between the two sectors.

Contractual relationship, i.e. public benefit contracts on delegation or assumption of responsibilities¹⁶, constitutes the closest and the most regulated form of co-operation between municipalities and the non-profit sector. Today the number of contractual delegation of responsibilities is over 1,000 and that of outsourcing municipalities is 600 to 700 (In 2000 632 municipalities entered into 1,050 contracts with civil organisations on the provision of public services [*Municipalities...* 2002]) (Figure 19.5). Despite the seemingly high number of contracts, relative to the size of the civil sector and the number of non-profit organisations, this type of co-operation between municipalities and voluntary organisations is not yet common enough in Hungary. This can be attributed to the causes outlined above (i.e. trust, reliability and financial situation). Entering into contract presupposes that contracting parties are on an equal footing. Municipalities, however, seem to find it difficult to understand or accept the operational logic of non-profit organisations, which are at a lower stage of institutionalisedness. Furthermore, attitudes rooted in traditional structures persist, as they serve the interests of those in public services, who believe that as long as the inherited structure is maintained, their work is secure.

Figure 19.5 Number of contracts concluded with non-profit organisations on the delegation of public responsibilities to non-profit organisations in a breakdown by activities

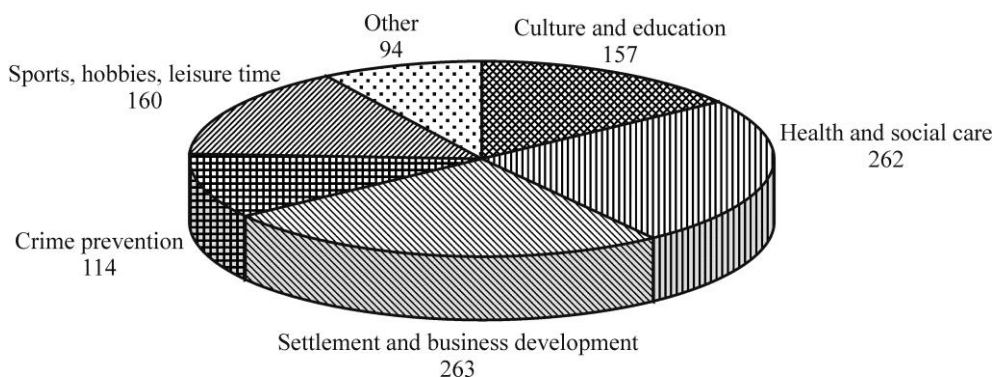


Figure 19.5 reveals that municipalities enter into contracts with civil organisations on the provision of services in the following areas: settlement and business development, environment protection, social services and health care (the share of such contracts amounting to 25%).

Naturally, not all civil organisations can assume public responsibilities from municipalities or government institutions; the majority do not set it as their objective either. Nor is there any need for that. Whatever may be the case, all civil initiatives and non-profit organisations are important components of the society.

Conclusion

Before the mid-1970s the tandem of the state and the market looked invincible. Changes during the decades that followed, especially the crisis of welfare states, questioned the concept of the bi-sectoral (state cum market) economy. The non-profit sector, already operational and perceived as a potential way out of the crises, consolidated its position as a producer of services between the state and the market. The traditional bi-sectoral model disintegrated, especially in the area of welfare services, and was replaced with efficient co-operation among the three sectors (Bartal 1999).

In terms of its size, ability to mobilise society, power of interest representation and role in the production of goods and public services, the Hungarian non-profit sector still falls behind most of its Western European counterparts. However, it should be borne in mind that political barriers to the establishment and operation of voluntary organisations were removed only 15 years ago in Hungary. Like social institutions in general, non-profit organisations are also embedded in the socio-economic structure, i.e. the present and the future of the sector as well as its possibilities and development hinge primarily on the characteristics, the legal, regulatory and socio-economic environment and the legacy, etc. of the country in question. Over its 15-year contemporary history, the Hungarian non-profit sector has set out on a path of development leading to a promising future (or rather, resumed its development discontinued in the mid-20th century). If it can efficiently manage the problems (e.g. lack of sectoral awareness, a low level of co-operation between the individual non-profit organisations, financial constraints and political interference, etc.) arising at an organisational and sectoral level and win the trust of the central government, municipalities and citizens, it may look forward to an uninterrupted history. An increasingly pressing need for solutions to various social and economic problems (e.g. severe social problems, a continuous rise in the number of the elderly and the disadvantaged, the high profile of environmental issues and the need for the protection of human rights) can further justify its existence and thereby boost its development.

NOTES

- ¹ The non-profit sector started to grow robustly in Europe already in the 1970s, with the widespread privatisation of services gaining ground. Governments strove to reduce welfare expenditure, so civil organisations assumed important government responsibilities. Civil organisations started to proliferate in the 1980s, the underlying reasons for which included financial crises and resultant government efforts in welfare states, people's increased welfare and free time and a change in their needs and wants. This brought about changes on the level of communities and the society as a whole. In certain member states of the European Union (e.g. in Spain and Portugal) there were changes that allowed for the possibility of the emergence of voluntary organisations (*European Community... 1998*).
- ² According to the definition accepted in both the professional and scientific community, non-profit organisations, deemed as a major component of the civil society, are '*non-governmental private organisations, which do not pursue for-profit objectives, meet all the criteria that are to be met in order to be eligible for formal registration and have a minimum level of self-administration and voluntary character*' (Bartal 1999, 23). It should be stressed, however, that, though economically non-profit, a number of institutions among governmental and municipal institutions (e.g. institutions of education, libraries, museums and municipalities) cannot be included in the non-profit sector.
- ³ *Public law foundations* are established by the Parliament, the Government or municipalities in order to perform certain government tasks.
Public law associations are 'organisations with self-governments and registered members, the establishment of which is stipulated by the law' (§ 65 (1) of the Civil Code). Thus, public associations are not set up through the voluntary decision of their members, rather their establishment is stipulated by the law. In effect, they can be perceived as forced associations based on government intentions and legislative decisions.
Public benefit companies are engaged in public benefit activities on a regular basis and operate in a for-profit manner. They are, nevertheless, non-profit organisations, since 'they undertake economic activities in order to meet shared public needs rather than to earn profits or acquire wealth' (Wellmann 2000). Public benefit companies are modelled on for-profit limited liability companies. As they are engaged in activities on a business basis, they are the most affluent organisations in the non-profit sector, and can be considered to be service providers rather than civil organisations.
- ⁴ In part, because the organisations established when the freedom of association was restored showed all the characteristics of earlier decades. Mainly sports clubs and organisations providing a framework for leisure time activities and hobbies were established in great numbers. As if there had been no other areas but those that the political power tolerated earlier. Since 1990 the spectrum of activities in which non-profit organisations are engaged has become markedly broader.
- ⁵ In Western Europe the main profile of one-third of all non-profit organisations is the social sphere. Two-thirds of the organisations are active in this sphere and also have a strong presence in another. Based on the total number of organisations in the social sphere, education and health care, the latter two traditionally categorised as welfare services, approximately half of the non-profit organisations in EU member states provide welfare care and services as their main profile (*The European Community... 1998*).

- ⁶ An average 28% of the population in Western European countries perform voluntary work (*The European Community...* 1998, 52).
- ⁷ Identifying and realising the gravity of adverse trends in employment, an EU publication on voluntary organisations accord high priority to the role of non-profit organisation in employment. J. Rifkin points out these adverse trends in his book, *End of Work*. He argues that labour surplus created by technological revolutions is less and less absorbed by new economic sectors. It is the strengthening of the voluntary (non-profit) sector that may address social and employment issues (Rifkin, quoted in *The European Community...* 1998, 10).
- ⁸ E.g. in the mid-1990s 4.9% of employees were employed by non-profit organisations in France and Germany. Corresponding figures for the UK, the Netherlands, Ireland and Belgium were 6.2% 12.5%, 11.5% and 10.5% respectively. In Austria and Finland the proportion of employees working for non-profit organisations is 4.5% and 3%, respectively (*Salamon–Anheier* 1999). Overall, these figures translate into millions of employees. On average, two-thirds of non-profit employees are active in education (28%), social care (27%) and health care (22%) (*Salamon–Anheier* 1999), i.e. the proportion of welfare services in employment is significant. In e.g. Germany, the Netherlands and Belgium and, to a lesser degree, Austria and Spain non-profit organisations are the first line of defence in the battle against social and welfare ills. All government intervention also materialises through them.
- ⁹ In most Western European countries the revenue structure is characterised by the dominance of public financing, i.e. the overwhelming majority of funds (accounting for as much as 60% to 70%) are from the central government. The share of central government funding in total revenues was 77% in Ireland and Belgium, 64% in Germany, 59% in the Netherlands, 58% in France and 50% even in Austria in the mid-1990s (*Salamon–Anheier* 1999, 34).
- ¹⁰ The share of private donations in total revenues was 2% in the Netherlands, 3% in Germany, 5% in Belgium, 6% in Austria and Finland, 7% in Ireland and France, 9% in the UK and a striking 19% in Spain in the mid-1990s (*Salamon–Anheier* 1999, 34).
- ¹¹ Stage 1: 1987–1990 – the initial stage; stage 2: 1991–1994 – general firming of favourable tax treatment, new forms of non-profit organisations; stage 3: 1995–1996 – selective tightening of favourable tax treatment, quasi-governmental non-profit organisations received more favourable treatment; stage 4: 1997 – a selective increase in indirect public funding; stage 5: a change to paradigms in 1998 – with Act CLVI of 1997 on Non-profit Organisations having entered into effect, public benefit became the most important eligibility criterion for favourable tax treatment. Due to constraints of length, this paper cannot embark on an in-depth analysis of the individual stages.
- ¹² Foundation: allocation of property for *permanent public interest purposes* by unilateral legal representation
- ¹³ One of the objectives set is that the share of budgetary funding within the total revenues of the sector in Hungary will have reached the lower threshold level, i.e. 40%, of EU member states by the time the government's term of office expires.

- ¹⁴ Those civil organisations and church-run institutions that carry out public duties are entitled to public funding, i.e. quota-based financing, in an amount that is identical to what government institutions receive.
- ¹⁵ E.g. in the late 1990s the number of non-government institutions providing social care was close to 300. The majority were old people's residential homes, where care was also provided; there were also a large number of residential or daytime homes for the disabled, addicts and the elderly (Hazai 1999, 58).
- ¹⁶ Care warranted by social needs is recognised by municipalities. Accordingly, they acknowledge their obligation to provide such care, and appropriate funds for doing so on a regular basis and in a regulated manner.

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Micro-regional Co-operation as a Hungarian Example of Local Development

Irén Kukorelli Szörényiné

Introduction

The concept of locality came to the fore in European regional policies from the 1970s and, in particular, the 1980s. Hence, while economic integration between the individual countries deepened and globalisation became increasingly vigorous, the role of local developments gained in importance with decentralisation and subsidiarity taking on an increasingly high profile. Apparently, globalisation and localisation are two mutually exclusive processes. Economic and, in particular, cultural globalisation leads to homogenisation. On the other hand, globalisation may also enhance identity. Moreover, means of globalisation (the Internet and mobile phones) also improve locality (Inotai 2001). Increasingly great efforts are made to help social groups on the periphery of a globalised world catch up with and join the world undergoing globalisation in a manner that the role of small communities increases in importance. This duality has been instrumental in securing sharper focus on local developments in spatial planning. This study seeks to outline the micro-regional level as the ‘embodiment’ of local development emerging in the decade of the political regime change.

Concept and Patterns of Local Development in Europe

It follows from the difference between locality and community that different approaches must be adopted to development, which must allow for the characteristics of the two. This, in turn, leads us to the concept of ‘local development’. Locality started to gain in importance already from the 1970s, then from the 1980s. Its importance became increasingly recognised in both the USA and the member states of the European Community, with an emphasis on development based on local resources, own contribution as well as internal human and social capital. ‘It is taken for a fact that every instance of development is linked to a place.

The local nature of development comes from the participation of local communities as initiators and controllers of development and its own room for manoeuvre relative to national level developments or those on levels higher than the regional one. In all interpretation, local development is of markedly a 'bottom-up nature' (G.Fekete 2001: 16).

Local development is also perceived as a new paradigm and interpreted as *the third wave of government development policy* in the USA. The first one is industrial consolidation, i.e. improving the competitiveness of existing industries; the second and the third are the kind of development policy in which the central government and the local governments bring economic development in line with the implementation of projects and the provision of services to the largest possible extent. Local development policies set great store by impact assessment, i.e. whether the projects completed or to be completed met the needs and requirements of the region at issue (Rural Economic Development... 1993).

In Europe, too, the development of rural spaces is linked to local development to a growing degree. The underlying reason for this is that rural spaces in Europe are more and more differentiated and, hence, different approaches and policies must be adopted to develop rural spaces that differ in space, time, diversity, mobilisation, identity, resources and even their attitudes towards globalisation.

The strong differentiation of rural spaces (Murdoch *et al* 2003) played a role in the emergence of a particular model of rural development in the 1990s, which attributes primary importance to local development.

The local development is 'more than a scaling down of interventions previously organised from the top by centralised policy making units ... There is more to local development than intervention by the central government ... It is a radical response that seeks to achieve new objectives in relation to the development process by focusing on such concepts as multi-dimensionality, integration, co-ordination, subsidiarity and sustainability' (Moseley 2003).

The adoption of the above definition is reflected in the model of *community-based integrated rural development* (CIRD) as a model of development, which became widespread in EU member states in the 1990s, where it was called the LEADER programme. It was also integrated into national models tailored to the characteristics of the individual countries.

It is safe to say that Ireland was the flag-bearer of designing models of local development. In the late 1980s the Irish government launched pilot programmes in order to generate a new type of co-operation between government agencies, the private sector and local communities. Towards this end, it focused on the following principles: the creation of a business friendly environment, more reasonable local co-ordination of services and the adoption of the 'bottom-up' approach by communities (Moseley 1999).

The 1990s saw the spread of local developments in Spain as well, of which there were 4 types: LEADER action groups, PRODER local groups, co-operation of the mancomunidades type and other, partnership-based organisations like rural development associations. Like other EU member states, Spain also adopted the initiative based on the EU's LEADER policy. The PRODER project was closely

related to it, or rather, they complemented each other in the sense that PRODER was an operative project that worked similarly to the LEADER one. However, those disadvantaged regions that did not benefit from the LEADER project were financed by the PRODER one. It is the so-called 'mancomunidades' or special interest associations that bear the closest resemblance to micro-regional co-operation in Hungary. They are local variants of development: associations of local councils that represent local governments. In predominantly rural regions the provision of services, such as waste collection and recycling, community work and the transport of students from home and back, is the responsibility of municipalities working in co-operation with each other. Performance of individual responsibilities may depend on the ability of the members to acquire various funds. In addition to the discharge of general daily duties, such special interest associations may also be suitable for the implementation of long-term developments (Esparcia *et al* 1999).

Various forms of micro-regional co-operation, i.e. local development, are also present in Italy. What is called the model of 'industrial districts' is common mainly in Central and Northern Italy. As the name suggests, it is mainly applied to urban areas typically with a population below 100,000. In addition to the local groups of LEADER, a typical example of local rural development in Europe, 'Territorial Pacts', a new form of local development based on PPP, also emerged in the mid-1990s. The first of its kind was made in the Mezzogiorno regions. Supported by municipalities, other local public service institutions and local advocacy organisations, approximately 150 Territorial Pacts were operational across Italy in 2000. Campenni and Sivini (1999) claim that the pacts only mean the availability of extra funds for many. There is, however, an upside to it. For example, it encourages local actors to come forward, stresses the importance of consensus-based local planning and the networks of local actors and adds to social capital.

A micro-regional level programme, the POMO project is the national programme of local development in Finland, which has been operational since March 1997. The micro-regions that are not eligible for the LEADER support establish local POMO groups. Within the POMO programme, the most dominant and the most important factor of local development is the POMO local group itself. It is responsible for programme planning, implementation, promotion and financing its costs (Uusitalo 1999).

As to France, it is the system of 'pays' that bears the closest resemblance to micro-regional co-operation in Hungary. The Voynet Act passed in 1999 in order to ensure the sustainable development of rural areas urged the introduction of a policy of co-operation between the individual settlements through settlement communities or 'pays' (Hardi 2000). 'Pays' are units organised in rural regions with a population between 3,500 and 50,000. Urban cores with a population over 15,000 persons are also excluded. Their main tasks include area and economic development and an optional task concerning the issue of environment, the quality of life, communications, culture or education (Ecrement 2001).

To the extent that *community-based integrated rural development* (CIRD) as a model of development can address local conflicts effectively, it may also carry the risk of communities turning inward. In order to avoid this, local actions should be

co-ordinated, and business groups and civil organisations should cooperate vertically and horizontally. It is necessary that the building of a network of social forces and actions should reach beyond locality, thereby contributing to development that can set both internal and external resources of the rural space into motion. This may lead to both the dissolution of the endogenous and exogenous dichotomy and the issue of 'macro' and 'micro'. Local actors, the integration of the local space of action, the network of local actors and the embedding of the local space of action are all issues that should be tackled. A major issue is to what extent the content and operation of networks can change the path to development and how they will generate such change in the space of action, i.e. to what extent network impacts re-arrange rural development processes experienced so far and how the space of action with networks can render the development of rural space more efficient.

Network research resolves the dichotomy between macro- and micro-space research and analyses interaction between the two. This leads us to Feerman's assumption that 'The wider world is not external to the local community, it is at the heart of the community's internal processes of differentiation' (Marsden 1999: 27).

What follows outlines the emergence and operation of macro-regional associations in Hungary as a Hungarian example of local development and partnership. It is safe to assume that it was simultaneous with the process in Western Europe only that the emergence and operation of macro-regional associations in Hungary occurred in a social and economic space undergoing complete transformation, simultaneously with land privatisation, at a time when rural spaces were hit simultaneously by change in ownership, unemployment as a new phenomenon and crisis in the agricultural sector. It was also at this time that a new system of public administration and local governments was put in place.

Partnership in Spatial Policy in Hungary in the 1990s

Two processes gathered momentum simultaneously in Hungary in the late 1980s and early 1990s. The integration of Hungary's economy into the EU's contributed to globalisation, while the political regime change fostered localisation through placing an emphasis on and promoting the interests of local communities.

After the regime change the Act on Local Governments took effect in 1991, putting an end to the former system of councils and statistical urban areas or environs. There emerged a two-tiered system of public administration, leading to discontinuation in the traditions of public administration, as, pursuant to the new act, public duties became the responsibilities of settlements as units of public administration. Thus, this act can be considered as the model of grassroots initiatives, of which the spirit runs counter to the efforts made to centralise public administration in the preceding decades. Its main concern is decentralisation and hence local decision-making. This is exactly why the first local government election came to symbolise the political regime change at a local level.

Under the council system between 1950 and 1990, regional authorities were the local organs of the central power. Settlements were denied the right of self-determination, with implementation as the most important task at the local level.

Under the 1971 National Settlement Development Concept (NSDC), the government decree on area development and the subsequent Act on Councils, funds allocated to smaller settlements flowed to a trickle due to the strongly centralised nature of public administration. Of the settlements included in a hierarchy of settlements, the development of those with an affiliated township status¹ failed because of the low level of funds or no funds at all. This often led to their slow disappearance.

With the Act on Local Governments entering into force, the residents of small settlements rightly felt that now they were masters of their own settlement. The law provided for the possibility that independent decision-making bodies could be set up. Such bodies were more than happy to assume both statutory and voluntary obligations. This led to each settlement establishing its local government. In consequence, close to 3,200 municipalities were set up to replace the former 1,600 council seats, which pointed to the fact that disintegration was under way.

The act did not provide for the size of municipalities. On the contrary, the central government watched the fragmentation of local power helplessly. Despite recommendations by Ministry of Interior² in the act, earlier mergers of councils were not revived. Seizing the opportunity provided by the act, even those settlements that had got on well strove to achieve complete independence. It was often the case that even the reasonable institution of district offices of the notary public was refused. And even if there were settlements that did establish district offices of the notary public, there was hardly any such centre with a district office of the notary public that used to be a council seat township. It was often the case that one of the former affiliate townships became the centre of district offices of the notary public. Even more frequently, each settlement set up its own independent district office of the notary public. 'Forming associations under the system of municipalities is not statutory; on the contrary: it is a freedom' (Pálné Kovács 1999: 158). It was rare for municipalities to exercise this freedom. In consequence, a very expensive fragmented system of local governments was established, which, nevertheless, was able to assert the right of settlements to self-determination. Along with the process of atomisation, striving for unity was also present. From the early 1990s, micro-regional associations established on a completely voluntary basis at the level of municipalities began to emerge. Thus, integration and disintegration occurred simultaneously in the settlement network.

On the one hand, in the wake of the Act on Local Governments, the settlements that used to belong administratively to the same council became independent and started to operate in isolation. They intended to attend to the duties stipulated by the Act on Local Governments and even the ones assumed voluntarily by themselves, resorting to the euphoria of freedom to make up for the scarcity of funds and resources. On the other hand, almost simultaneously, there were signs pointing to unity. Realising the challenge that interest representation and advocacy posed to small settlements, and that concerted efforts had to be made in the area of infrastructural development, mayors tended to work in co-operation. Naturally, these signs of unity varied in intensity from one area to the next, depending on local decision-makers, problems and settlement structure.

Concept and Organisational Forms of the Micro-region

Micro-regional organisations, alliances, associations, foundations or whatever they called themselves were established in a row across the country in the early 1990s. No statutory provision regulated the form of their operation. Initially, before the Area Development Act was passed, the most common forms had been associations and alliances. Based on a 1999 survey, 70% operated as associations. Even today, 13% operate as associations or foundations.

Micro-regional associations reflected good personal relationships between the individual office holders at local governments and the scope for their possible co-operation. Local intentions and decisions were first reflected in their selection of names for themselves. In previous decades mainly the names of long-forgotten landscapes (Fertő mente, Cserehát, Ormánság and Szigetköz, to name but a few) were selected in order to emphasise the identity of the individual associations.

Area development, regional sciences and geography adopt the concept of the micro-region as a spatial unit. In this context it is a spatial unit of planning and development, which is the scene of most economic, market, commercial, infrastructural, service-providing, public administrative and social relations that local residents have. 'Its main task is to express the shared intentions that are immanently related to the relevant landscape, locality and the municipalities working in co-operation with each other, get the necessary plans prepared, bring funds in line with each other, obtain additional funds, implement developments, further the town-and-village relationship and provide for the development of regional identity and the countryside' (Csatári 1996: 6). This definition corresponds to that of the micro-region covering the town and its environs.

Neither public administrative boundaries, nor natural geographic borders, not even the boundaries of gravity zones alone are adequately suited for providing an unequivocal definition of the concept of the micro-region. There is more to this complex spatial unit. It is also where the history, culture, social, natural and geographic characteristics as well as the ethnographic heritage of settlements are studied in combination. Furthermore, the contiguous area where the homogeneity of the above aspects is the strongest is called the micro-region (Szörényiné Kukorelli and Rechnitzer 1993).

The concept of the macro-region surfaces in Act XXI of 1996, where the following definition of the macro-region as a fundamental concept is provided: 'a spatial unit that can be delimited on the basis of an aggregate of functional relations between the individual settlements'. The smallest type of regions defined in the National Area Development Concept is also the micro-region. Thus, both the law and the National Area Development Concept adopt the micro-regional level as a spatial category. The question is which concept and delimitation of the macro-region the law adopts. The answer to this question is that it is the micro-region as delimited by the Central Statistical Office (CSO).

Typically, the boundaries of micro-regional associations, established as voluntary associations by municipalities, and the delimitation provided by the CSO do not coincide. The latter adopted the category of urban environs, which was in use

between 1984 and 1990. CSO districts are referred to as micro-regions in CSO publications. Based on this, 138 micro-regions, called the statistical micro-regions, were delimited. No organisation or association justified their existence. In effect, they were established as units of data provision. The opinion of local residents was never invited. Nor did they have any knowledge of or a say in their establishment. Thus, it is more appropriate to refer to the components of the CSO classification as established in January 1994 as CSO districts or urban environs. Between 1994 and 1996 12 settlements were granted an urban status. Thus, the appearance of new cities/towns in a CSO district based on the category of the city/town and its gravity zone re-arranged former relationships, which in turn led to the fragmentation of the gravity zones delimited earlier. This was one of the reasons why the system of former districts was revised in 1996, providing for the possibility of establishing new districts. In the wake of the revision, the number of CSO districts had risen to 150 by 1996³. The new revision as of 1 January 2004 led to the emergence of another 18 CSO micro-regions, with their number currently standing at 167.

Associations of municipalities for regional development as one of the types of micro-regional associations belong to the category of ‘bodies responsible for area development and spatial planning’ pursuant to Section III of Act XXI of 1996 on Regional Development and Physical Planning. Thus, this type of micro-regional associations was granted legitimacy. The law provides for the establishment of such associations on a non-statutory basis, stipulating that local governments may set up associations of municipalities for regional development.

There were three distinct stages of the establishment of micro-regional associations in the 1990s: (i) 1990–1992; (ii) 1993–1996; and (iii) the years following the entry into force of Act XXI of 1996.

The Early Years (1989–1992)

One of the characteristics of the establishment of micro-regional associations in the early 1990s was that, while they were participants in the process of integration, they did their best to keep the number of the town-and-country relations imposed on them prior to 1990 at a minimum, i.e. they excluded cities from associations as much as they could. It was at this time that, for instance, ‘Zalakar’ was formed, with Zalaszentgrót, the former centre of the urban environs excluded. There are numerous similar examples, including the Alliance of the Local Governments in Szigetköz, which approved the membership of Mosonmagyaróvár, a city in the region after 1996. Further examples are the Muramente Ethnic Regional Development Association and Rábatorok Regional Development Association, the former located in the vicinity of the city of Nagykanizsa, the latter of the city of Győr. The fact that cities were excluded from the associations formed during this period was not completely the decision of villages. Cities/towns themselves also turned inward. There were but a few examples (e.g. Székesfehérvár) of their making overtures to their respective attraction zones or neighbouring settlements. More often than not, the associations were named after physical geographical regions. This expressed their strong attachment to landscape identity, while emphasising the exclusion of cities and their separation from their centres (towns). Explanations for their being

called into existence included joint interest representation and the pursuit of shared development opportunities (e.g. obtaining funds). They were the true paragons of grassroots initiatives.

Many were called into existence in order to perform certain duties including infrastructural construction such as sewage, gas supply and telephone networks. With their mission completed, their existence lost its original justification (Süli-Zakar 1997). Associations set up for the purposes of infrastructural development did not have much to do with area development associations established later. The former were not alliances based grassroots interest representation, but rather agreements for the reasonable planning of the relevant public utilities. Such task-oriented co-operation was common at places where sewage, gas supply, piped water or telephone networks were to be established. The task-oriented nature of these associations is clearly reflected by the fact that in those regions where the development of various types of public utilities was underway, the settlements that constituted the various public utilities associations also varied from one association to the next. There are also examples of efficiently operating public utilities associations that later became area development associations assuming complex development duties.

Simultaneously with the establishment of the associations for the purposes of infrastructural development, those for the purposes of area development were also set up and registered. The first of their kind were the Cserehát Settlement Alliance set up in 1989 and the Alliance of Local Governments in the Disadvantaged Areas of Vas County in 1991.

Micro-regional associations established for the purposes of interest representation and advocacy soon realised that the objectives set would remain pie in the sky unless there is an organisational background and operation management backing the alliances. The sine qua non for the survival of micro-regional associations was access to financial resources, as membership fees from local governments as members, facing scarcity of funds themselves, did not provide adequate financial coverage. Existing associations identified opportunities for obtaining funds through application procedures. So did local governments that had not been members of any micro-regional associations. Opportunities for obtaining funds through application procedures led to the emergence of further micro-regional associations and offered a chance of survival for the existing ones. Thus, integration at a micro-regional level continued and even accelerated.

The Stage of Gathering Momentum (1993–1996)

The second wave of setting up micro-regional associations was precipitated by the availability of PHARE⁴ and OFA⁵ funds for them in 1993. The Inter-Communal Co-operation Programme launched under the aegis of the former preceded the projects offered by OFA by a few months.

The 1992 Regional Development PHARE Programme had an inter-communal co-operation component, which features heavily between 1993 and 1996. This was the PHARE Inter-Communal Co-operation (ICC), which had the following objectives:

- enhancing and promoting co-operation between local governments in area development
- providing support for high quality projects of co-operation, thereby evidencing the advantages of co-operation between local governments as well as the advantages and feasibility of cross-settlement economic development.

A total of 30 micro-regional associations were granted financial support during the first stages of a two-round application procedure with two stages in each round. In early 1994, only the associations operational at that time and all the associations established expressly for this opportunity, i.e. a total of 56, submitted applications during the first stage. Of them, however, only 15 were granted support (Andrasek 1995).

The popularity of the programme and rural micro-regions' increasing interest and innovative ability were mirrored by the fact that there was an almost two-fold increase in the number of the associations that submitted applications during the first stage of the second round⁶. The propensity for establishing associations grew during the intervening period between the two rounds, i.e. within the span of a mere half year, leading to another two-fold increase in the number of associations. By the autumn of 1994, 130 micro-regional associations declared their intention to co-operate.

Nevertheless, the impact of the programme should not be overestimated, since not all successful associations managed to implement the project for which financial support had been granted through the application procedure. The associations that were not among the 30 winners were either unable to start operating or had to be integrated into other associations later unless they had access to funds, were perseverant enough or had a person dedicated to the cause at the helm.

The programme launched by Országos Foglalkoztatási Közalapítvány (OFA) (National Employment Foundation) was a lifebuoy thrown to unsuccessful applicants. The objectives of this programme had a lot in common with PHARE ICC. Calling for inter-settlement co-operation, OFA targeted the micro-regional level, and provided financial support for the working out of complex micro-regional area development projects. Thus, the OFA programme provided for the possibility that the micro-regions that had been unsuccessful during the first stage of the PHARE ICC programme could have access to financial support. Of the applications submitted, 32 were successful, i.e. the associations operational at the time were able to work out their development concept. The total sum of support was HUF 35.2 million. The objective of both application procedures was to provide support for local development based on partnership, i.e. they were the transpositions of the model of community-based integrated rural development.

OFA launched a programme aimed at providing support for micro-regional managers on three occasions, first in 1995, then in the two successive years. This programme was the organic continuation of the previous one. It strove to provide financial support for micro-regional associations with a complex regional development project each, but with no access to other funds, so that they could implement their projects with the help of their respective micro-regional managers.

This OFA programme was also instrumental in the institutionalisation of the micro-regional level.

Both PHARE and OFA programmes played a key role in inter-settlement integration through the establishment of micro-regional associations. Both sought to support micro-regional associations that fitted in with the European Union's new rural development policy, i.e. the ones that were established through grassroots initiatives, based on partnership, decided on actions locally and were able to tap their own resources.

The Stage of Maturity (After Act XXI)

Unlike the CSO delimitation, Act XXI, which adopted this delimitation, had a significant impact on the establishment of micro-regional associations. From 1996, when the Act on Regional Development and Physical Planning entered into force, micro-regions began to be established or re-established in the spirit of the Act. Even those settlements that had not been members of any micro-regional associations joined existing or new associations.

Although the Act does not stipulate the compulsory establishment of Associations of Municipalities for Regional Development (AMRD), in order for settlements to have representatives on regional development councils, it was advisable that they should either join an AMRD or establish one. The underlying reason for this was that, prior to the 1999 amendment to the Act, each association in a CSO micro-region was entitled to delegate a representative as a member to the area development council in the relevant county. This is, indeed, why the passing of the Act on Regional Development and Physical Planning can be considered as a milestone in the history of micro-regional associations. Thus, the Act accelerated the process of settlements joining regional development associations. In those areas where there had been no local governmental associations or micro-regional co-operation, the Association of Municipalities for Regional Development (AMRD) established after the entry into force of the Act often affected the area of statistical micro-regions.

Former associations that seemed to be capable of operation and had a regional development office and a vision for development, but that were not established as an association by the territory of CSO micro-regions had the following opportunities from which to select:

- they transformed, in keeping with Act XXI of 1996, into Association Municipalities for Regional Development (AMRD); if they expressed their intention to join an association, cities/towns or other types of settlements in a region could do so; if there were several viable associations in a statistical zone of gravity, their representation on the regional development council materialised in a rotating manner;
- settlements in a CSO district established Association of Municipalities for Regional Development (AMRD) in accordance with statutory regulations; the settlements that were members of existing associations joined these new ones, whereby they had dual membership, which, in turn, guaranteed their representation;

- they established Associations of Municipalities for Regional Development (AMRD) according to the delimitation of the CSO district, thereby dissolving all former associations.

The reason why Act XXI of 1996 deserves merit is that it accelerated the process of establishing micro-regional associations, facilitated co-operation between municipalities and provided for the possibility that micro-regions could participate in decision-making through their representatives on regional development councils. At the same time, it made a clear distinction between micro-regions and the Associations of Municipalities for Regional Development (AMRD), which precluded the emergence of a clear and unambiguous spatial distribution. However, the Act put an end to the practice of including members other than local governments in micro-regional associations, which was at variance with the principle of broad partnership. Spatial coverage remains an unresolved issue. In 1999 there were 74 settlements that had not joined any association and many that were members of several.

Both functional and statistical micro-regions were present. They either coincided territorially or not.

After the 1999 amendment to the Act on Regional Development and Physical Planning the role of micro-regions changed somewhat. The number of their representatives on both county and regional development councils declined, with resultant reduction in their powers with respect to regional development decisions.

From 1999 a new type of micro-regional co-operation emerged. It was the so-called SAPARD⁷ micro-regions. In its call for applications published in late 1998, the Department of Rural Development Programmes at the Ministry of Agriculture and Rural Development called on micro-regional associations to prepare rural development strategic programmes. According to the call for applications, however, it was not the Associations of Municipalities for Regional Development (AMRD) that were eligible applicants, but rather such groups of municipalities that declared their intention to co-operate with each other, and that they had been members of such groups. The latter requirement was to prevent spatial overlapping. Municipalities submitted applications either as the AMRD's, which co-operated with each other on earlier occasions, or as groups of associations; it was sometimes also the case that new conglomerates of municipalities evolved e.g. two SAPARD micro-regions within the former AMRD system.

Thus, during the preparation for eligibility for pre-accession funds, new micro-regional associations emerged in Hungary, with spatial penetration reaching approximately 95% this time. Legally, SAPARD micro-regions (micro-regions for rural development) were non-existent units, established primarily for the fulfilment of target tasks. Yet, even after they had prepared their operative rural development programmes, they were faced with further tasks during the pre-accession process.

If we only take into consideration micro-regional associations established for the purpose of area and economic development, at least three types of micro-regions had evolved in Hungary by 2002:

- the CSO micro-region, which means a statistical micro-region and a point of action;

Table 20.1 Number of micro-regions in a regional breakdown (1999)

Regions	Number of CSO micro-regions	Number of CSO micro-regions *	Number of the Association of Municipalities for regional development (AMRD)	Number of SAPARD micro-regions
Western Transdanubia	21	22	43	37
Southern Transdanubia	22	24	30	32
Central Transdanubia	23	26	29	20
Northern Hungary	23	28	28	36
Central Hungary	15	16	15	16
Northern Great Plain	23	27	33	29
Southern Great Plain	23	25	32	24
Hungary	150	168	205	194

* According to the CSO micro-regional delimitation effective from 1 January 2004

Source: MTA RKK NYUTI.

- the AMRD – the so-called functional micro-regions;
- and SAPARD micro-regions – also functional micro-regions as defined during the process of preparation for the rural development programme.

Table 20.1 shows the number of these three types of micro-regions, evidencing the difference in their numbers.

The findings of a decade's research reveal that the role that micro-regional associations played in regional development is mainly detectable in their boosting local developments.

Micro-regional co-operation followed no previous pattern and relied on no previous experience in Hungary. They led to the emergence of functional micro-regions, which survived despite the scarcity of funds. They owe their survival, operation and the results that they have achieved so far to grassroots initiatives. Their strength is attributable to the determination of local decision-makers. They can do increasingly complete jobs, secure funds through application procedures as well as manage and implement projects. This is far from being common on a micro-regional level. This only holds true for some micro-regional associations of which the enthusiasm and will remain unflagging and unbent respectively and which submitted successful applications.

A further issue is whether or not this level of area development will be able to operate as such, and if yes what resources it will be able to muster and what institutional form it will take to fulfil its duties. There is no gainsaying that regional managership and the work performed under this scheme was crucial to the

establishment of micro-regional associations. It facilitated or resuscitated regional level co-operation and the operation of area development associations. Year 2000 saw a shift towards the survival of the macro-regional level. However, it remained unclear which type of macro-regions area development prioritised.

Rural development unequivocally perceives SAPARD micro-regions as units of development. By contrast, area development considers CSO micro-regions as the level of planning and intervention. Meanwhile, public administration also tends to prioritise CSO micro-regions, which is clearly reflected in the fact that the Office of the Prime Minister has established a network of micro-regional commissioners. In 2000 the process of centrally supported institutionalisation began, with persons (micro-regional commissioners) responsible for each CSO district, without any organisational background, though. Although there were regional managers responsible for SAPARD micro-regions, with part of their remuneration paid by Ministry of Agriculture and Rural Development, unless their members were identical to those of area development associations, they did not have any organisational background either.

Furthermore, no central funding was budgeted for the operation of the organisational form (Associations of Municipalities for Regional Development AMRD) proposed by the law.

Heading for Multi-purpose Micro-regional Associations

As is clear from the above, the spatial arrangement of the various types of micro-regional co-operation, the simultaneous existence of AMRD and CSO districts resulted in a chaos with regard to the level and concept of the micro-region. Thus, the revision of the concept of the micro-region tier and its structure was inevitable on a government level. In 2003 and 2004 a four-stage reform process was launched on a micro-regional level.

(1) As a first step, the system of statistical districts has been revised. The aim of the revision under the CSO's professional guidance was to establish a system of micro-regions which

- meets the requirements of statistics and regional development;
- might, over a longer term, coincide with the area over which it had the competence needed for the exercising of micro-regional level public administrative powers;
- might serve as a supply area of the public services provided by municipalities;
- complied with the regulations of the European Union's NUTS system;
- covered the entire territory of the country with no overlapping;
- were made up of settlements the cohesion of which was evidenced by an analysis of economic, institutional, communicational and public administrative relations;
- allowed for the possibility that, in the course of its establishment, all municipalities, public administrative and area development organisations concerned could voice their opinions.

The aim of the revision of statistical micro-regions was to transform them into multi-purpose spatial units and the establishment of the planning tier of micro-regional development. A legal framework guaranteed the stability of the system and

hence predictability needed for long-term planning. It also allowed for the uniformity of the competence of micro-regional public administrative powers with respect to the relevant area and provided a framework for the efficient arrangement of the provision of the public services provided by local governments.

(2) As a next step, the government passed a decree, Decree 65/2004 (IV.15.), on multi-purpose micro-regional associations. The objective of the decree was to ensure that the public service duties of local governments were discharged within a framework of associations that covered the entire area of micro-regions and that micro-regional development tasks were performed. The necessary funds were appropriated in the 2004 budget. By issuing this decree the Government unequivocally expressed its intention to provide a uniform system for micro-regional associations. Although the decree did not stipulate the establishment of multi-purpose micro-regional associations, only associations complying with pre-set conditions (e.g. adjustment to statistical delimitation and the joint supply of at least three public services to be provided by municipalities for a minimum of 3 years, etc.) were allowed to submit applications and were eligible for central funds, which encouraged the establishment of multi-purpose micro-regional associations.

(3) The amendment to the Act on Regional Development and Physical Planning approved in June 2004 provided for the establishment of what is called micro-regional development councils. In order that micro-regions may play a role in area development, the amendment to the Act provides for the establishment of a system of micro-regional development councils that cover the entire territory of the country with no overlapping. The main responsibility of the councils is to co-ordinate area development tasks in micro-regions, approve micro-regional development concepts and create joint regional development programmes.

Government decree 258/2004, specifying the actual responsibilities and the individual stages of the operation of micro-regional development councils, was passed on 16 September 2004. The enforcement of the decree was the responsibility of the municipal public administrative offices. Thus, the micro-regional level of area development became centrally regulated.

(4) Act CVII of 2004 (XI.18.) on the Establishment of Multi-purpose Micro-regional Associations raises the responsibilities and powers of multi-purpose micro-regional associations to the level of the law as well as specifies the content of association agreements and the criteria for standard central financing.

In 2004 145 CSO micro-regions submitted applications. 65 micro-regions only assumed regional development tasks. A total of HUF 1.8 billion in support was granted to multi-purpose micro-regional associations and those that only assumed area development tasks. By late 2004 the restructuring of micro-regions had been over. Micro-regional associations resumed operation under a new structure, with new tasks and responsibilities and in a legally regulated environment in 2005.

The emergence of multi-purpose micro-regional associations marked the end of an era. Former functional micro-regions and even rural development (SAPARD) micro-regions lost their original justification. There were no funds that supported the former non-CSO-based associations of municipalities for regional development. Earlier forms of operation only survived as civil initiatives. It seems that the series

of the measures that the government took in 2004 launched the process of transforming the micro-regional level into a level of actual area development. The appeal of local initiatives to be taken at all costs either disappeared along the way or remained one of the characteristics of civil organisations independent, in part or in whole, of local governments.

NOTES

- ¹ Before 1991, under the council system, affiliated townships were the administrative parts of common council seat townships, constituting one common township council. This was especially typical in areas with small villages, where often as many as 4 or 5 affiliated townships were linked to a key settlement administratively.
- ² Settlements fall under the competence of the Ministry of Interior.
- ³ Act XXI of 1996 on Regional Development and Physical Planning adopts this spatial category as a level of intervention.
- ⁴ PHARE Aid Project under the decision passed by the Council of European Communities in December 1989
- ⁵ OFA Országos Foglalkoztatási Közalapítvány (National Employment Foundation)
- ⁶ KTM (Közlekedési és Területfejlesztési Minisztérium) Ministry of Transportation and Regional Development Regional Development PHARE Office
- ⁷ SAPARD: pre-accession assistance programme

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PART IV

Changing Places and Spaces

Slopes and Slides: Spatial Inequalities in Employment Opportunities at the Turn of the Millennium

Zsuzsanna Bihari and Katalin Kovács

Introduction

This paper seeks to analyse those vigorous spatial processes that have occurred since the political regime change, focusing on employment issues.¹ Our analyses are based on population size and a settlement database aggregated according to the categories of statistical micro-regions, effective from January 2004².

In pursuit of an answer to the question of what new processes have shaped the settlement stock in Hungary over the past decade, to what extent they are similar to their global counterparts and to what extent they are part of them, it is safe to assume that Enyedi's assertions, made a quarter of a century ago (1980), according to which differences between villages and cities are blurred, and it is between *dynamically developing* and *declining rural regions* rather than cities and villages that fundamental differences lie, seem to be true.

What is proposed in the first part of this paper, which examines indicators revealing the social structure of villages on the basis of settlement categories according to population size, contradicts, to all appearances, the above assertion. The reason for this is that settlement size, the composition of local societies as well as the level of education and income position of and the employability of/employment opportunities for local residents are still strongly correlated. In other words, statistical data for the final decade of the 20th century still provide evidence for deep inequalities between cities and villages as well as between the various categories of villages in terms of, for instance, the life and career perspectives of local residents. Nevertheless, the contradiction is only apparent, since what our findings mirror is deterioration of dramatic proportions in the conditions of those living in the settlements of peripheral locations. This could not be counterbalanced by the more favourable indicators of those integrated small villages in dynamic regions, which confirm the fact that it is between integrated and lagging regions that essential differences evolve.

This is substantiated by the second part of this paper, which examines, on a micro-regional level, the impact zone and the integrative ability of settlements with central functions as well as dynamism or decline in employment, population growth, age composition and other factors. We found that the *geographical location* of settlements, their *distance from dynamic centres* and the *accessibility* of such centres determined the prevailing conditions and future perspectives of local residents.

Our earlier empirical studies also confirmed that it was not the combined economic power of (large) cities or urban conglomerates that had triggered those spatial processes that determined the state of villages and had led, if not to anything else, to shifts in focus, relative to what had been the case earlier, and that was now transforming the Hungarian settlement network according to a West European pattern (Enyedi 1988). Those opting for villages as places of either residence or recreation integrated by urban economies or as places where the cost of living is lower and, overall, a new division of labour between the individual settlement categories played at least as important a role in the growth of poles and suburban zones and in the concentration of disadvantaged social groups on the peripheries as did urban employment capacity.

By the end of the decade the new functions of villages or those that were given a new emphasis, i.e. residence, recreation and landscape care, had become a new paradigm that influenced the European Union's rural policy (Ploeg *et al* 2000). After the political regime change, precipitating considerable migration, they gained ground in Hungary as well, as is illustrated at several junctures in this paper.

On the Slope: Reflection of Spatial Processes and Employment Opportunities in the Various Settlement Categories

When deciding on examining this aspect, we asked the following questions: Has the unrelenting consistence in the workings of the settlement slope that characterised the approximately four decades before the political regime change prevailed despite the processes, i.e. growing spatial inequalities and a positive balance of migration from large cities to villages, that have become increasingly marked since then?³ Do those living in more populous villages stand better chances of employment, higher income and a more comfortable life than their counterparts in the less populous ones? Are residents of large cities, *ab ovo*, in a more advantageous position than those in small towns? And, finally, do city dwellers still have better perspectives than do villagers? The answer to the above questions is 'yes'. The reason for this is that, although there are occasional signs of changes, on the whole, *no breakthrough* can be detected in terms of the overriding importance of the *settlement slope* or settlement size. Despite strong residential suburbanisation (Timár and Váradi 2001), especially in the metropolitan region and in the environs of regional centres, and contrasting trends of development in regions with small villages, only faint outlines of such trends are discernible in the aggregates formed according to the settlement categories based on population size.

What are the standard manifestations of the operation of the settlement slope? First and foremost, overall, *demographic erosion* in micro-regions continues. In

other words, age composition remains the most unfavourable in small villages, where ageing is taking on increasing proportions and those moving out outnumber those moving in. Although the migration balance is positive in the majority of larger villages, ageing and a low number of children lead to shrinking population. Hence, the number of small settlements, even the smallest ones, increases, though that of their inhabitants diminishes. This is all the more intriguing as a 2% increase in the number of taxpayers would logically lead to the conclusion that the majority of those moving in are economically active. As far as the income differences are concerned, the average income of those in employment in the smallest settlements is still the lowest (in 2001 77.5% of the average income excluding data for Budapesters), the gap in this respect has not widened. Rather, it has narrowed relative to what it was in 1994 (76.4%).

This suggests that mainstream trends hide even conspicuous, new and diverse trends. Higher migration gains and hence population growth in larger villages and a sharp rise in the number of taxpayers simultaneously reflect the impact of the moving in of both city dwellers and villagers. Townships coveting an urban status and lying in the environs of cities are clearly over-represented among those with a population of over 5,000.

As regards, however, the central issue of this paper, i.e. developments in *employment conditions* and *employment capacity*, despite irregularities in demographic data and data on population mobility, the *settlement slope* operates in keeping with expectations for its unrelenting nature. *Local employment capacity*, apart from a slight, 1% to 2%, deviation, grows in direct proportion in the settlement categories included in a hierarchy based on legal status and population size. The retention ability of *economic activity*, which is not necessarily based on employment at the place of residence, is less regular and depends on the room for manoeuvre for cushioning the impact of job losses (see indicators of commuting ratios in Table 21.1a and 21.1b). Certain trends are, however, unmistakable. They are as follows,

- Although to the lowest extent and well below the average, only in small settlements, i.e. in villages with a population of under 500, did *local employment capacity* grow between 1990 and 2001 (from 26% to 30% as a proportion of the economically active population), probably as a result of the establishment of local governments. On average 41% of those employed in villages find employment locally. Corresponding figures for city dwellers and residents of Budapest, the latter representing the top of the settlement hierarchy, are 81% and 96% respectively.
- Although the proportion of the jobs held by *commuters* decreases further up the settlement slope, this decrease is not proportionate to local employment capacity. A quarter of the urban jobs (one-fifth in Budapest) are held by commuters. Corresponding figures for villages and settlements of the smallest size are 30% and 38% respectively. This is attributable to the discrepancy between locally available labour supply and demand mainly in those settlements that represent the lowest level of the settlement hierarchy. An analysis of data on commuting reveals that not even medium-size cities can employ local labour in

Table 21.1a A few data and indicators in a breakdown of settlement categories

Categories of settlements and headcount based on the number of the residential population	Number of settlements		Number of the population (persons)		Net income as a proportion of the average (%)		Number of the persons employed		Number of jobs 2001/1990 (%)		Number of out-commuters		Persons employed as a proportion of the 15-64-year-old population (%)		Ageing index (Number of over-60s per 100 under-14s)		Number of private farms per 15-X population (%)		Persons with a university or college degree as a proportion of the persons employed (%)	
	2001	2001	2001	2001	2001	2001	2001/1990 (%)	2001	2001/1990 (%)	2001	2001	2001	2001	2001	2001	2002*	2001	2001	2001	2001
Below 200	300	35,507	74.9	58.6	71.1	53.2	39.7	184.0	33.3	5.4										
200-499	697	237,027	77.9	71.8	71.8	68.4	44.5	135.2	28.5	5.7										
500-999	691	493,332	81.5	74.2	67.4	76.2	45.9	129.1	26.4	7.6										
1,000-1,999	654	919,066	85.4	77.6	66.6	83.3	47.5	114.8	23.7	9.1										
2,000-4,999	473	1,373,019	88.2	79.4	70.3	87.3	48.1	110.2	21.4	9.8										
over 5,000	68	469,724	101.7	92.0	88.6	98.1	52.2	102.8	13.1	11.9										
Total	2,883	3,527,675	87.7	79.1	71.3	83.7	47.9	115.3	22.2	9.4										

* Data on personal income tax provided by the Hungarian Tax Authority.

Source: CSO census data.

Table 21.1b A few data and indicators in a breakdown of settlement categories

Categories of settlements and headcount based on the number of the residential population	2001	Number of settlements	Number of the population (persons)	Net income as a proportion of the average (%)	Number of the persons employed	2001/1990 (%)		Number of out-commuters	Persons employed as a proportion of the 15-64- year-old population (%)	Ageing index (Number of over-60s per 100 under-14s)	Number of private farms per 15-X population (%)	Persons with a university or college degree as a proportion of the persons employed (%)
						2001	2001/1990 (%)					
1,000-4,999	36	123,769	94.0	76.7	68.6	101.7	118.4	50.7	118.4	12.9	13.8	
5,000-9,999	80	574,443	87.5	76.8	70.7	95.8	114.3	49.2	111.5	16.6	12.3	
10,000-19,999	73	1,026,312	99.9	81.0	77.4	99.0	122.4	52.5	111.5	11.2	15.1	
20,000-49,999	42	1,208,284	107.5	82.4	75.8	118.6	129.2	54.1	122.4	7.1	18.0	
50,000-99,999	12	771,679	116.9	90.0	84.7	147.2	129.2	58.8	129.2	3.3	21.0	
100,000-210,000	8	1,188,232	117.8	85.0	83.2	163.4	125.9	54.2	125.9	3.6	25.1	
Budapest	1	1,777,921	157.7	81.3	78.7	109.2	184.5	60.3	184.5	0.3	29.8	
Total number of cities and towns	252	6,670,640	121.0	82.6	78.9	112.9	134.6	55.6	134.6	5.7	22.2	
Hungary	3,135	10,198,315	110.6	81.5	77.3	93.1	127.0	53.0	127.0	11.3	18.3	

* Data on personal income tax provided by the Hungarian Tax Authority.

Source: CSO census data.

jobs requiring qualifications or retain all highly qualified labour locally. Its very impact is highly likely to be the underlying reason for commuting between centres.

- The number of *commuters* grew in those settlement categories, logically in larger cities, where it was outright low a decade before. This is especially true for regional centres and county seats, and less for Budapest. While the number of commuters in settlements at the lowest level of the urban hierarchy and the top level of the village hierarchy has stabilised, it has declined in villages with a smaller population in a direction and at a rate that are consistent with rules of the slope. It stands to reason that just the opposite is the case when indicators of the number of dependent and inactive persons per employed person and the proportion of the households with no members in employment are examined. These data reflect ageing, the getting stuck in villages of those who lost their jobs as well as the lack of commuting opportunities and financial capability to commute, which leads to inactivity of dramatic proportions, often as high as 70% as a proportion of the active-age population, in crisis zones and peripheral regions undergoing segregation.⁴
- Employment is at its lowest in the 15–64 age group in the case of both sexes in settlements with the smallest population. It is in these settlements that reduction in the number of the registered unemployed was the smallest between 1993, when unemployment was record high, and 2002. Hence, the rate of unemployment is the highest here. Female employment is particularly low (37% as a proportion of the 15–64 age group), while higher, 50% male employment co-exists with a higher, 13% rate of unemployment. As a proportion of the 18–59 age group, female unemployment was 10.6%. It is villages undergoing ghettoisation where diverse forms of old and new poverty (Ferge 2000; Spéder 2002) are discernible, the level of education of the population is low, economic activity is around 20%, female employment is especially low, unemployment, male unemployment (unemployed women do not get themselves registered⁵), in particular, the proportion of the economically inactive are high and income is low. Inertia prevails, since there is nowhere to go in terms of employment, and even if there were, it would be expensive. Both will and way are missing. As a result, the number of commuters fell by 40% between 1990 and 2001.

The underlying reasons for the above include (i) peripheral location, (ii) a lack of demand and supply (in a wide range of services, including public services) arising from the small size, (iii) a poor supply of resources such as education and capabilities (e.g. ability and willingness to set up businesses) and (iv) the large weight of crisis sectors, among them agriculture in particular, in employment. This held true during the era of socialism and at the turn of the millennium as well. In this regard, the settlement slope works almost perfectly: the employment capacity of agriculture was at its highest, i.e. 40%, in settlements with a population of below 500 in 1990. In 2001, too, the proportion of small village residents was the highest in the sector, though it was only 15% then, and the density of private farms was also the highest here in 2000, the year of the most recent agricultural census.⁶ Although agriculture and, within that, small-scale production are of secondary importance,

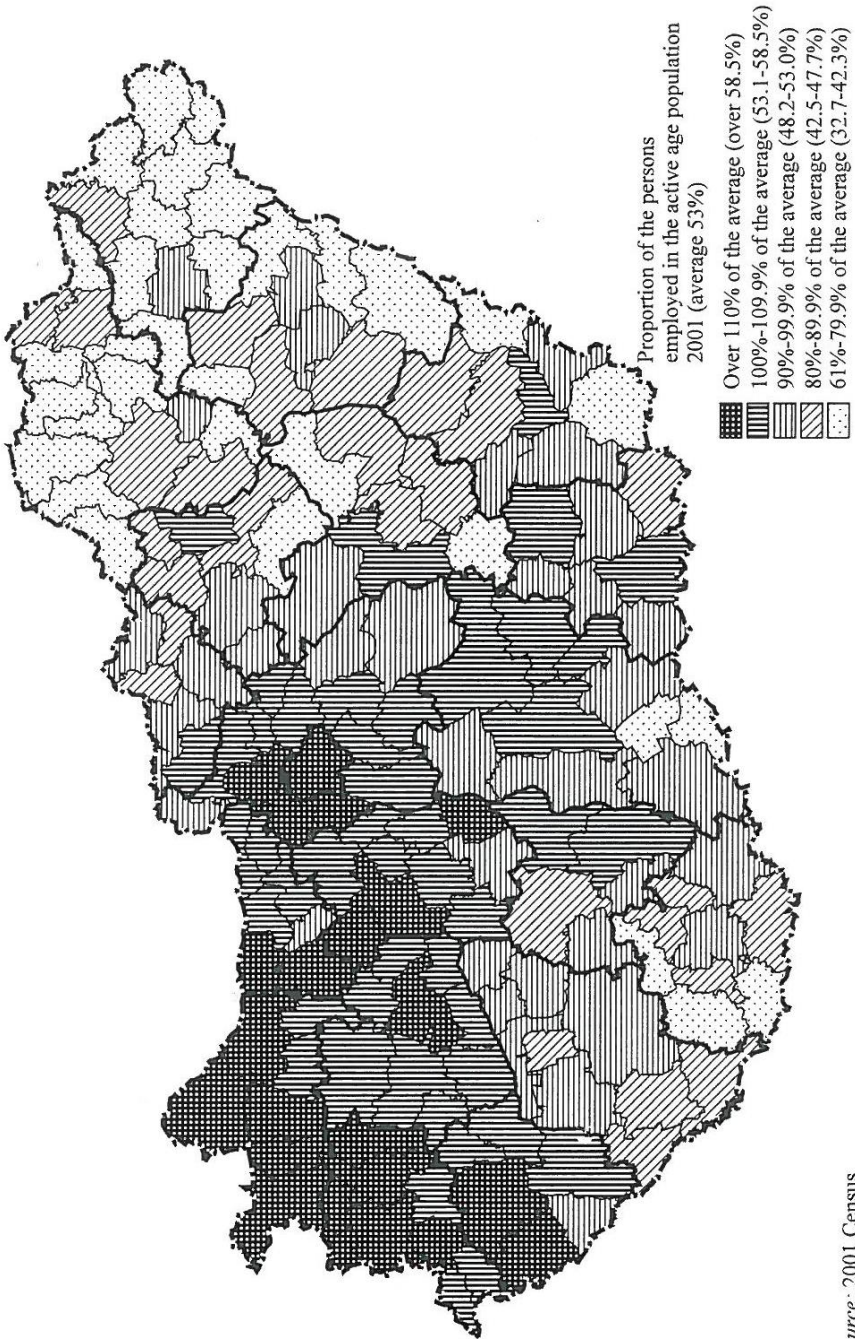
their utmost importance from the perspective of the livelihood of families can hardly be called to question.

On the Slide: Social and Economic Trends in the South and in the East

There seems to be general consensus in the literature on rising spatial inequalities in Hungary and the gravity and deep impact of economic and social polarisation (Kiss 2001, Fazekas 2003, Kovács and Koós 2003; Nemes Nagy 2003). According to this, the slide slopes in a North–Southernly or a West–Easterly direction. Our study has not proven otherwise either. It confirmed the existence of a divide essentially between the regions in the East and the West and those in North and the South. However, our criteria for changes in employment indicators shed light on a few important details presented below:

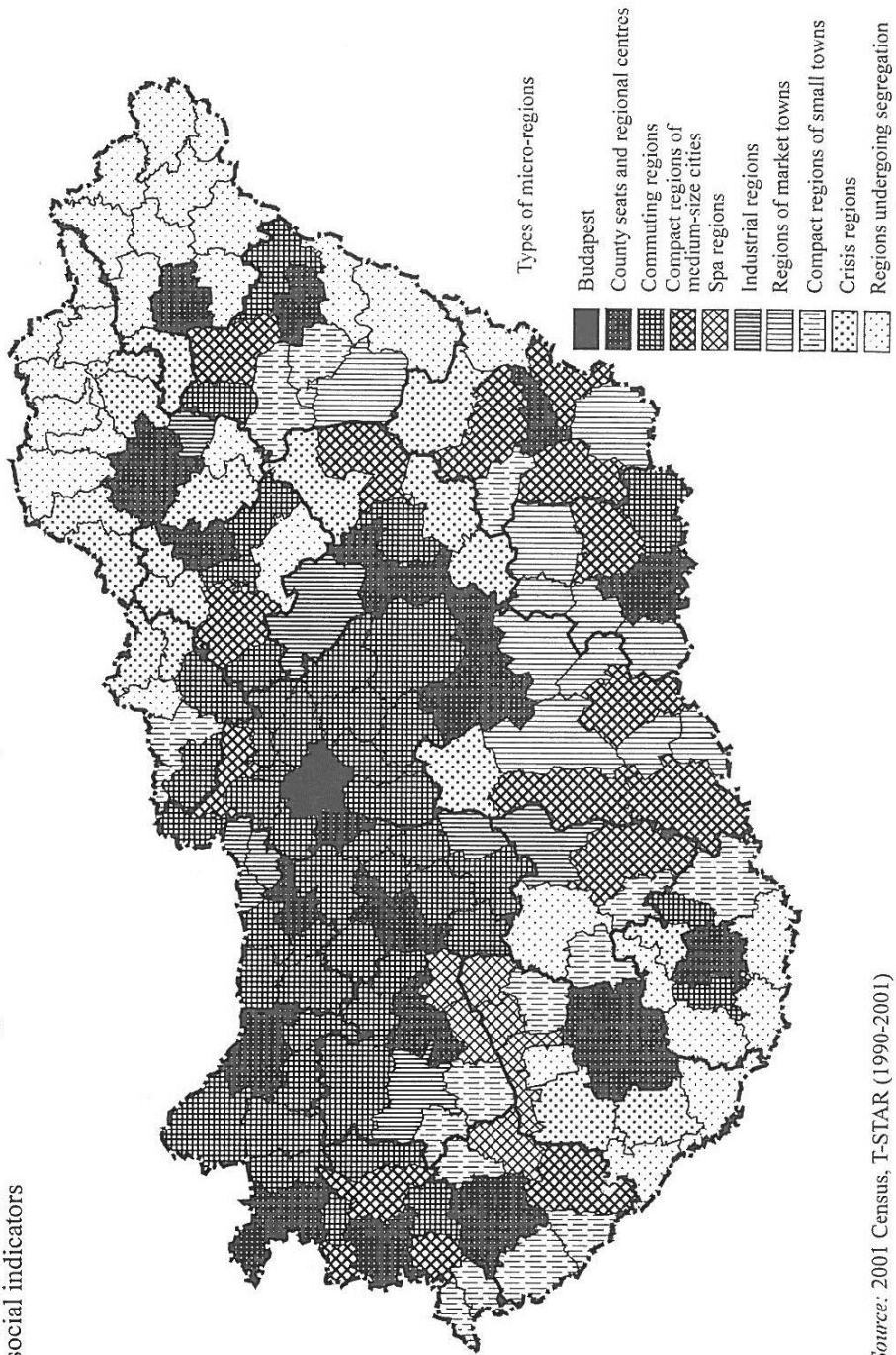
- In the case of *dynamic centres* and when their commuting zones overlap, their influence on employment generates an impact factor at least on a mezo-regional level; but it is also discernible in a wider geographic space. The location of micro-regions with a better-than-average rate of economic activity reveals that the employment capacity of Budapest and the dynamic centres of the Central and Western Hungarian regions allowed for the possibility that a contiguous, economically better-than-average active region might emerge and that, along the state frontier and the main axis of traffic, a '*hyperactive*' zone might evolve in North West Hungary (Figure 21.1). The regional impact of economic dynamism was able to adjust the implications of economic re-arrangement in employment, which entailed a dramatic fall in the number of jobs in certain micro-regions. With a few exceptions, the dynamic zone stretching between North West Hungary and Szeged is directly linked to international networks, mainly via the business connections of those transnational corporations that established branches in Hungary (Enyedi 2004).
- *Economic suburbanisation*, which is at its strongest in the Budapest agglomeration, and has led to the emergence of a unique region in today's Hungary where employment (100.1%) has not changed since 1990 and the number of jobs has increased (101.2%), albeit slightly, is attributable in part to the power of dynamic centres and in part to the re-arrangement of the spatial structure of the economy. Figure 21.2 shows those micro-regions where, in addition to economic suburbanisation, classic residential suburbanisation in the social sense is dominant and the moving out of the urban upper and middle classes has re-arranged local communities. In these regions household income is above average, while the proportion of those employed locally is far below average (53% relative to the national average of 81%).
- Based on their population growth, *commuting zones*, including the Budapest agglomeration, can be regarded as the most dynamically developing regional units. While the population of the country shrank between 1990 and 2001, that of commuting areas grew by 137,000 or 7%. In these regions population growth

Figure 2.1.1 Proportion of the persons employed in the 15-64-year-old population



Source: 2001 Census

Figure 21.2 Types of micro-regions based on economic, labour market and social indicators



Source: 2001 Census, T-STAR (1990-2001)

is not or not primarily related to strengthening economies, rather to suburbanisation and the ability of centres, especially that of Budapest, to attract labour.

- Commuting thus improves the chances of employment. Its dynamising impact is enormous and, given the trend-like evolvement of economic clusters, it is likely to remain so. Yet, its importance should not be overrated, since, in addition to economic power relations, the settlement network and spatial structure also influence commuting profoundly. In the *Great Plain* commuting intensity is far below average. Hence, to all appearances, the capacity of settlements with central functions to attract labour is weaker. This is attributable to the fact that the ability of settlements in the Great Plain to provide employment locally is much higher than that of small and medium-size towns with small villages in their environs in the rest of the country.
- In addition to the explanatory power of the West-East slope, the typology completed also resulted, at least on the mezo-regional level, in a few important conclusions and clarifications (Figure 21.2). One is the delimiting of *crisis regions*, which still include the unmistakable zones of structural crisis in the extractive and heavy industries in the North East and the South West and inner peripheries mainly in the Great Plain and Southern Transdanubia. The fate of industrial crisis regions and depression zones proves the importance of the distance between the individual settlements and dynamic regions or hubs of development (Tagai in: Nemes Nagy 2003). While the industrial regions in North West Hungary in the field of gravity of hub areas, measurable at an East Central European scale, managed, for the most part, to overcome structural crisis, neither those in the Komló region in the South nor the ones in the Ózd, Kazincbarcika and Miskolc regions in the North succeeded in doing so.
- Another aspect of classifying typical labour market zones is based on the dominant sector of their respective economies. Such are contracting, yet still unique *market town regions* in the Great Plain and *spa zones* at Lake Balaton with a large number of small businesses and employees trained to a high standard and posting high income. In addition to *industrial regions* revamped through greenfield investments, successful privatisation and/or government-assisted restructuring, they constitute, from a sectoral perspective, a specific group of micro-regions.
- And, finally, a few facts about the *slide* along which mostly the micro-regions on the outer and inner peripheries of the counties in the North East, Eastern and Southern Transdanubia move increasingly farther down. Our typology refers to these micro-regions, a total of 30, where nearly one million people live, as regions where segregation appeared sporadically or as a prevailing pattern. Social erosion with an ethnic tint to it is what these regions have in common and what poses the most serious problem facing them.

Typology of Micro-regions According to a System of Criteria Based on Employment and Social Structure

In establishing the various types of micro-regions, we relied, as a starting point, on the classification based on the combined economic power of centres, their employment capacity arising from the number of jobs and their status⁷ in the urban hierarchy⁸ set up by Beluszky and Győri. The problem that this classification presented was that it included regions with very different characteristics in the same categories in the mid-section and at the pole representing weak economic power. Therefore, all micro-regions were examined on the basis of economic activity, the sectoral structure of employment, the intensity of commuting, household income, the level of education of residents, indicators of demography and commuting as well as data on centres. When needed, changes in other variables (structure of demography and trends) were also taken into consideration. Care was taken that each type should also exhibit typical labour market characteristics. Based on this, micro-regions were included in a system of categories comprising first 16 components, and then, a few components having been combined, 10. Categories were based on the characteristics of micro-regions as a whole, the relationship between centres (or settlements with central functions) and their environs as well as the circumstances of commuting. A brief description of the individual types is provided below. Figure 21.2 shows their spatial distribution.

Budapest⁹

Competitive even by CEE standards, Budapest is Hungary's centre with unique economic power. In 2001 46% of the registered capital of businesses operated, one-third of employees with a university or college and university degree lived and nearly 25% of all the jobs in Hungary were concentrated here. Approximately 175,000 persons from over 600 settlements commuted to Budapest every day. It has an overpowering concentration of businesses and human resources, to which it owes its rank as the centre of the country and on the basis of which it is among globally competitive metropolises.

Regions of Centres with Municipal and Regional Impact Zones

Serving also as places of residence for 2.5 million people, 474 settlements in a total of 18 regions are included in this category. The number of jobs in smaller centres with municipal and regional impact zones is 30-50,000, in larger ones over 70,000. Income and welfare indicators reflect a high level of education. Similarly to Budapest, these large cities with a high concentration of capital and jobs have an impact zone that reaches beyond the boundaries of their own micro-regions, though the geographical expansion of their catchment area and the number of commuters vary greatly. They owe their strength not only to the economic weight of the centres (large cities), but also to the growing potential of their more or less independent agglomerations, which rely and, simultaneously, exert an impact on large cities. A typical example is a few hubs in the Budapest agglomeration, Budaörs and its

environs, in particular. Budaörs itself is the ‘product’ of agglomeration. At the same time, it has become a significant target area of commuting despite the fact that all the settlements in this micro-region are primarily attracted by Budapest, irrespective of the significant economic weight of settlements such as Érd and Törökbálint.

Historically, Debrecen, Szeged, Pécs and Miskolc are the strongest central settlements. By 2002 Győr and Székesfehérvár had also caught up with the largest centres with a regional impact zone. Centres with a regional impact zone include the remaining county seats, except for Salgótarján and Szekszárd, which were included in lower categories. They were replaced by Budaörs and Sopron. Overall, businesses operating in the micro-regions included in this category hold 22% of all investment capital and 30% of all jobs. One of these regions is a place of residence for 27% of all employees.

Commuting Zones

What the 46 micro-regions with 697 settlements and a population of slightly over 1,900,000 that constitute the commuting zones have in common is a higher-than-average rate of commuting, the target of which is usually an attraction centre other than that of the relevant micro-region. Commuting zones can be included into three distinct sub-categories.

- Although centres have relatively large economic weight in 24 of the micro-regions of commuting (e.g. the Cegléd, Dabas and Szob micro-regions), the fundamental characteristic of their labour market is that the majority of employees commute to some neighbouring county seat or even to some regional one.
- The position of the 15 micro-regions constituting the *second ring of the commuting zones* is weaker than that of the above regions. Their own centres represent small economic weight and have a weaker ability to attract labour, hence employees commute to one or more centres outside the region. At the same time, however, the economic activity of the population and wages are high and labour force is also trained to an above-average standard. Typically, they are micro-regions (e.g. Aba and Adony micro-regions) located in a ring with a 20-40-km radius around Budapest, Székesfehérvár and Győr.
- Seven micro-regions in the *Budapest agglomeration* constitute a special group. Here the rate of commuting, income and the level of education, relative to those in the above micro-regions, are high. What they have in common is that after the recession that accompanied the political regime change their respective economies strengthened. So much so that this is the only sub-category where the number of jobs, in contrast to national trends, grew rather than fell.

Regions of Industrial Cities

The category of industrial cities includes seven micro-regions containing a total of 199 settlements with a population of 400,000 with rather strong economies, outstanding economic activity, high income, labour force trained to a high standard. Although the global downturn that coincided with the regime change hit all the

industrial cities to a certain extent, these regions managed to survive the era of transformation, and their economies and labour markets also recovered. In the Esztergom region Suzuki's direct investment gave impetus to development, while the successful privatisation of the Lehel Gépgyár helped the Jászberény region recover from recession; the latter has, by now, become a Central European stronghold and is about to open a new plant in Nyíregyháza. In Ajka alumina manufacturing, which contracted, has managed to find new markets and recovered; the power station has successfully resumed operation; the aluminium smelter has been privatised and now has French owners; the shoe factory has been acquired by Italian investors. New businesses like zeolit mining have also taken root. Specialising in petrol chemical manufacturing, Tiszaújváros is a major chemical industry centre even by Central European standards. There has been practically no change in the operation of the nuclear plant in Paks, which generates 40% of the country's electricity consumption, as it was unaffected by the shock exerted by economic transformation. By contrast, industry in Dunaújváros was not; however, product restructuring with government assistance lent viability to production despite depressed prices. Dorog, where mining used to be the backbone of the local economy, has been less fortunate. Although it did not manage to stave off severe recession, commuting to centres with rapidly rejuvenated economies helped it avoid the fate that awaited industrial crisis zones.

Regions with Spas and Health Resorts

Representing a category with the smallest population (i.e. 174,000 persons), regions with spas and health resorts constitute rather a special group, as it is difficult to identify the spa and resort function on the level of statistical data. It is only characteristic in cities and towns at Lake Balaton. Data on other well-known spas and health resorts only add a detail to the 'big picture' perceived of micro-regions. Special characteristics of spas and health resorts include an employment structure that has become strongly tertiary, high economic activity, entrepreneurial activity only comparable to that in the most developed centres and a high proportion of those with a university/college degree. Typically, all the micro-regions along Lake Balaton, except for the Tapolca one with a centre further off the lake, belong to this group. The reason for this is obvious: only at Lake Balaton is spa tourism typical rather than isolated and limited to a few (central) settlements. Only here do holiday-makers, mostly with seasonal presence, provide livelihood for a multitude of businesses on a regional rather than settlement level.

Compact Regions with Medium-size Towns

Compact regions with medium-size towns have a core town with strong attraction ability each. Even if commuting is common, it is to the region's own centre. The attraction impact of other centres is less strong. The 16 micro-regions with a population of 319,000 in this category are rather different in terms of economic activity, employment structure and commuting.

- Regions with relatively high local employment capacity and resultant low commuting lie mainly in the proximity of regional and municipal centres in the Great Plain (e.g. the Baja, Békés, Gyula, Hódmezővásárhely and Kalocsa micro-regions).
- Compact regions with medium-size towns where commuting is more common are in Transdanubia, where, in addition to larger centres, there have evolved medium-size and small settlements, from which those in employment commute mainly to micro-regional centres, while a relatively large number of the active age population in micro-regional centres seek employment in county seats or neighbouring towns. This ‘cross-commuting’, which is likely to affect quality labour in particular, is common in small and medium-size towns in Transdanubia.

Compact Regions with Small towns

As a rule, compact regions with small towns have poorer indicators than their counterparts with medium-size towns, which have stronger economic power. They are significantly backward in terms of income. The proportion of those with a university or college degree is below average and the economic activity of the population is high only in a few industrial micro-regions. This category includes 15 micro-regions with a population of 410,000, of which three are located in the Great Plain, one in Nógrád County and the remaining regions are those with small villages mostly in Transdanubia. The example of these micro-regions, where development was organic, proves that healthy small-town economies can manage their relatively narrow attraction zones on their own and function properly (see the Óriszentpéter, Sümeg and Tapolca cases).

Regions with a Market Town Character

This category includes 11 micro-regions with a population of close to 380,000, where agriculture is still dominant. The proportion of those employed in the sector mainly in ‘rural’ settlements, but also in the centre(s) of micro-regions is higher than average. Although regions with a market town character resemble compact regions with small and medium-size towns in many respects, the economic activity and income of their population are significantly lower. With agrarian economy contracting, the number of micro-regions with a market town character has fallen sharply over the past one decade. While in 1990 the number of micro-regions where the proportion of those employed in agriculture exceeded 30% was 44, data for 2001 allowed for the possibility of the delimitation of only 11 such regions.

All regions with a market town character are in the Great Plain. In Bács-Kiskun County it was specialised agricultural co-operatives in the Bácsalmás, Jánoshalma, Kiskőrösi Kiskunfélegyháza and Kiskunmajsa regions that contributed to the development of efficient market gardening on fundamentally sandy soil and, hence, to the survival of farming traditions. This led to the emergence of a group of thriving agrarian entrepreneurs with competitive expertise and market savvy. In Csongrád

County this category includes the environs of Csongrád, Szentes, Kistelek and Mórahalom.

Crisis zones

Including 18 micro-regions with 308 settlements and a population of 710,000, this category covers two characteristic crisis zones that represent separate subcategories under a more detailed typology. One comprises regions struggling with economic depression, the other includes those bogged down in an industrial structural crisis. What they have in common is that there has been a 40% loss in jobs, the number employed has fallen by one-third and economic activity is very low, standing at a mere 28.4%.

Inner peripheries hit by *economic recession* (e.g. Kunszentmárton, Kunszentmiklós, Mezőtúr, Tiszafüred and Szeghalom in the Great Plain and Marcali and Nagyatád in Transdanubia) are a long way from county seats and other larger economic centres that may be able to invigorate their economies. They have been unable to attract external investment or master their internal resources in order to expand their dramatically contracted economic capacity.

Industrial crisis zones include extractive and heavy industry crisis zones, which form a contiguous area within a swathe with Salgótarján, Eger and Kazincbarcika at its boundary. Likewise, the space between Miskolc and Nyíregyháza is also crammed with micro-regions sunk in industrial depression. Although employment in a dramatically shrunk industry provides decent income, it is unable to attract capital investment and is not strong enough to provide suitable employment opportunities and proper livelihood even for those living in the environs of cities. In Transdanubia the only industrial crisis zone is the Komló one, where the city has so far been unable to recover from the crisis in the wake of the collapse of mining. Nevertheless, villages in the Komló zone are better off now than Komló itself is, due to its population's commuting to Pécs, a regional centre.

Regions Undergoing Segregation

Regions where, according to data on economic activity, education and demography, patterns of ghettoisation seem to be emerging are classified as regions undergoing segregation. This phenomenon occurs only in an isolated manner in a smaller proportion of the micro-regions in this category and is, for the time being, limited only to a few settlements. However, it sometimes also affects whole regions. This category includes extended areas with low economic activity, massive economic recession, peripheral location, a population with poor education, especially in rural areas, high unemployment and inactivity, a low proportion of commuters and a high proportion of households without employed members despite their young age composition. It comprises a total of 30 micro-regions with 725 settlements with a population of 963,000 living mainly in small villages.

Deterioration in the position of these regions is clearly reflected in the fact that, while in 1994 3.3% of the subscribed capital of business enterprises operated here, the corresponding figure in 2001 was down to 1.5%. In 1990 9.6% of all jobs

provided livelihood for those living in these regions, compared to 7.8% in 2001. Monthly income amounted to 83% of the rural average in 1994, while only to 79% in 2001. Relative to 1990, by 2001 the number of jobs had fallen to 63%, measured against the national average of 77%. What is even more dramatic is that a fall in employment was nearly twice the national average.

Conclusion

If, by way of conclusion, the question of ‘What next?’ is asked, we can only share a vague feeling with the reader, namely that things will stay roughly the way they are. This means that the intensity and impact of spatial processes that picked up momentum at the end of the 20th century will gain in strength. Investors will continue to shape economic space along profitability, which will further boost the development of already developed regions (Fazekas 2003; Köllő 2003; Nemes Nagy 2003). The government is unlikely to be able to strike a balance, at least in the short run. Relative distance between developed regions and less developed ones will remain unchanged at best. Under a worst case scenario, it will further increase.

Yet, even expected stagnation or a rise in spatial inequalities cannot dim favourable developments, thus mainly the far-reaching impact of dynamic cities or clusters of cities, i.e. the regional impact of the concentration of development factors. Examples include, in addition to the Budapest agglomeration and North West Hungary, a zone, albeit with a few isolated areas in it, reaching as far as Szeged and integrated into global economic networks.

A list of ‘casualties’ definitely includes market town lifestyle and economy taking an increasingly low profile, which renders the bigger picture more drab, but which may not exert adverse impacts only. The reason for this is that, concentrated mainly in the Southern Great Plain, regions with market towns are far from being disadvantaged. Due to their strong local economies and large size, their social structure is less vulnerable.

Last, but most importantly, the grave, complex and often interconnected issues that are posed by depression regions, industrial crisis areas and peripheries undergoing segregation can be addressed only by an efficient and innovational convergence policy. The dual aim of such a policy would be to stop the situation from further deteriorating and improve it through boosting social and economic integration until cross-border economic activity picks up, thereby creating a more benign climate for the larger regions as well. This is, however, unlikely to happen overnight.

NOTES

¹ This paper was prepared as part of the research titled ‘The Current State of and Possible Methods of Improving Equal Opportunities in Labour Market Competition with Special Regard to Disadvantaged Social Groups’, sponsored by the Ministry of Employment and

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² NUTS 4-level regions under EU spatial classification.

³ For a detailed discussion of the impact of settlement policies on the development chances of micro-regions, see Kovács 1990 and Havas 1999.

⁴ Relying on a study by Köllő, Kertesi (2000) who performed an analysis of the correlation between the rate of unemployment in the issuing and target areas of commuting and the costs of commuting. He concludes that inequalities in employment opportunities, especially in the case of those with a low level of education, are unbearably large in the various regions with respect to access to labour markets of varying degrees of absorption capacity and accessibility. Based on his research, he found that the costs of commuting were too high to be profitable for approximately 250,000 working-age village residents. Referring to the results of a questionnaire survey including formerly unemployed persons, Bartus (2003) complements and, to a certain extent, corrects Kertesi's findings. According to this, the number of commuters who commute at their own costs is strikingly low (approximately 20%). Accordingly, Kertesi's findings can be modified as follows: the costs of commuting are so high for 80% of employees that they cannot afford to commute unless their costs thus incurred are reimbursed. If this specific condition is met, however, nearly 90% are willing to commute in the case of both sexes. Nevertheless, Bartus (2003) also points out that there is an inverse relationship between the willingness of employers to reimburse costs and the characteristics of local labour markets in micro-regions, since the rate of unemployment is also inversely related to the likelihood of finding suitable labour.

⁵ For a detailed discussion of female unemployment in regions with small villages, see Váradi (2005).

⁶ For a more detailed discussion of the issue, see G.Fekete (2005).

⁷ Naturally, not all settlements that we classified as centres were included in the urban hierarchy, as settlements with a township status were also included in the group of 342 settlements; they are, as a rule, labelled as 'only micro-regional centres' as weaker yet existing links of a kind.

⁸ See Beluszky and Györi (2005). The authors are greatly indebted to Pál Beluszky for his helpful remarks on the first version of the typology.

⁹ For the purpose of this paper, Budapest qualifies as a micro-region here.

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A Slow Response System: The Urban Network

Pál Beluszky and Róbert Győri

The urban network is an intricate structure. The conditions of its operation changed after the regime change, which will have far-reaching consequences. So far, however, they have only slightly transformed the urban network, this slow response system. The aim of this study is to explore these changes and their immediate causes as well as to record this ‘transient state of affairs’.

Major conditions for the development of the urban stock and network *prior to 1990* were as follows:

- Central control played a decisive role in the development of the urban network before 1990.¹ This did not necessarily mean state or government control or intervention. Rather, this meant e.g. industrialisation, policies on business premises, settlement financing and institution maintenance dictated by large state-owned companies. Thus, industrial companies did not usually emerge through the inclusion of capital available locally or grow out of small businesses, but rather, they were established as a result of one single central decision, transforming settlement functions and status overnight. The location of certain functions, more often than not, ignored the ‘track record’ and the characteristics of the individual settlements. It did not resume ‘organic development’, establish a close relationship, through ownership, between companies and settlements (and their population), contribute to local capital or melt into the local economy and community. In consequence, the bankruptcy or winding up of a company, the phasing out of a sector or dwindling output resulted in an equally dramatic and rapid transformation of the settlement status, especially that of mono-functional settlements, small towns and villages. Local potential, resources, visions and the characteristics of local communities were either put on the back burner in the process of urban development, or had only an indirect impact on it (e.g. through the ability of the individual cities to assert their interests). To this can be added the paltry proportion and insignificant role of municipality revenues and the importance of public administration classification, which also affect developments in the position of the individual settlements.² Central control also contributed to the homogenisation of the urban stock, the spread of ‘standardised’ components and concentrated development.

- In effect, *homogenisation* and *concentration* were general trends in settlement development before the late 1980s (Enyedi 1998). Homogenisation was boosted by the *monopolistic position* of social and economic control and supply and a network of organisations serving them and by the nationally standardised, model-based distribution and functions, etc. of centralised institutions. For decades, the conduct of financial institutional activity was the responsibility of the National Bank of Hungary, the National Savings Bank and their branch offices in a uniform hierarchical framework, with identical competences and activities. Under such circumstances the development of, for instance, a regional financial centre was inconceivable. Nearly every segment of the nationalised and institutionalised society, ranging from health care (where the establishment of health care institutions was governed by pre-set quotas, and where the development of, for instance, dentist cities providing livelihood for hundreds of dentists would have been equally unthinkable)³, through popular science lectures and museums to the local press, operated on similar principles. Activities squeezed into a centralised Procrustean framework resulted in concentration. Thus, for example, lawyers had to form specialised partnerships in which to work, while bakers worked for county bakery companies. The vigorous industrialisation of market towns⁴ and the development of urban institutions in industrial cities led to a scarcity of cities with a special profile in the Hungarian urban stock. The urban network of institutions was also *standardised*, and ignored actual needs (Beluszky 1999).
- Concentration trends and efforts pervading the so-called socialist model of society building and control coincided with processes of concentration that accompanied each stage of *Hungarian urbanisation* (Enyedi 1988; Lados 1994). Enyedi argues that in Central Europe the first stage of modern urbanisation (the explosion-like growth of cities) began at the turn of the 19th and 20th century. The second stage (the phase of relative deconcentration) started in the mid-1980, while the third one (disurbanisation) around the turn of the millennium. These processes of concentration were facilitated by settlement network planning and the practice of settlement development. However, despite an extreme concentration of settlement development fixed investment projects, urbanisation did not keep pace with increase in the number of the industrial roles that cities had. Despite the spectacularly rapid growth of (certain) cities and large-scale housing construction, which was also concentrated in cities, the country remained *underurbanised*, at least when compared to the volume of urban industry and central functions. An outcome of underurbanisation was mass commuting. One-fifth of all wage-earners and over two-fifths of the population in villages became commuters; the spread of commuting transformed nearly the entire country into one single vast residential zone. However, ideal/typical agglomeration only evolved in a few places, mainly in Budapest and its environs.
- Relative concentration also meant *hierarchisation*. Since *county seats* became power centres, institutions proliferated in them and, prior to the first half of the 1980s, in *district seats*⁵; villages underwent ‘districting’⁶; settlements had no autonomy whatsoever; and settlement network development was centrally

planned and controlled, a hierarchical chain evolved, with the capital city at one end and what was called associate villages⁷ at the other, influencing the daily life, life conditions and chances, etc. of the population profoundly. This is what influenced and controlled migration, demography, the stratification of local societies, the standard of supply and so forth. The desire for upward mobility in the social and career hierarchy sooner or later necessitated advance in the settlement hierarchy (migration). Regional inequalities developed primarily along the settlement hierarchy, and only secondarily between the individual regions. The principal working categories of settlement development plans and concepts were also the settlement types designated on the basis of their (planned) position in the settlement hierarchy.

- Urban development was controlled, theoretically at least, by *settlement network planning*. From 1971 on, this was the responsibility of what was called the National Settlement Network Project. Views are divided on its impact on real processes. It did serve as an ideological background to an excessively city-oriented settlement development approach in Hungary (granting 90% to 92% of settlement development funds to cities). The National Settlement Network Project helped hierarchical stratification assume excessive importance and facilitated the standardisation of the settlement network even if it did not actually create them as many claim.

After the political regime change in 1990, some of the impacts on the urban stock arose from the crisis and the dismantling of the structure established in the socialist era, rather than from the new status quo or the emergence of a market economy (Beluszky 2002).

- The socialist economy underwent crises and output slumped already before 1990. The consequences of the political changeover (e.g. market economy criteria, such as profitability, efficiency and marketability, had to be met; the COMECON market collapsed, etc.) only accelerated this process. Initially, between 1990 and 1996 in particular, political and social changes occurred against a backdrop of heavy recession. It was not the old *economic structure* that economic growth after 1996 restored either.

Between 1988 and 1993 the number of industrial wage-earners fell by approximately 540,000 (or by 38% of the 1988 figures), whereas the total number employed edged down by 1.1 million. In consequence, there emerged extensive *crisis zones* with industrial and mining settlements as well as areas of commuting in them. A dramatic fall in output also resulted in a hike in urban unemployment. Except for a few cities, the number of wage-earners in industry and mining fell to an extent that fundamentally transformed the functional structure of cities, their position in the settlement network, their settlement network classification and the life style of their inhabitants, etc. A typical example of this process is *Ózd*, this characteristic product of first capitalist, and then socialist industrialisation, where the number of industrial jobs dropped from 18,000 to 3,500 and that of the persons in industrial employment per 1,000 residents is 89, so low that this conglomerate with a population of 40,000

Table 22.1 Changes in the industrial roles of cities 1982–1997

Cities	Number of industrial wage-earners 1982	Number of industrial wage-earners per 1,000 persons 1982	Number of industrial wage-earners 1997	Number of industrial wage-earners per 1,000 persons 1997
1. Ózd	17,782	367	3,698	89
2. Oroszlány	7,792	369	2,458	118
3. Komló	10,394	337	3,094	111
4. Várpalota	11,425	399	4,409	167
5. Martfű	5,159	749	2,584	350
6. Kazincbarcika	12,961	333	6,328	184
7. Sopron	13,986	254	5,256	98
8. Nyírbátor	3,211	232	1,245	94
9. Balassagyarmat	9,409	314	5,532	185
10. Hódmezővásárhely	11,129	205	5,277	107
11. Ajka	10,956	358	6,951	212
12. Tatabánya	18,959	245	5,360	74
13. Miskolc	50,552	239	16,502	93
14. Nagykanizsa	15,200	278	8,405	160

Source: Regional Statistical Yearbook 1982 and 1998, Budapest, CSO, 1983 and 1998.

is no longer an industrial city (nor is it anything else yet). The number of its inhabitants fell by nearly 10,000 in a matter of one and a half decades (Table 22.1). The fact that in 15 years (1982–1997) the number of industrial wage-earners per 1,000 residents in cities diminished from 200 to 70 and that the proportion of decrease varied widely re-differentiated the urban stock.

- Decrease in the number of industrial jobs and the overall *demographic condition* of the country have resulted in completely new demographic processes in cities, which are also highly uncharacteristic of them. The urban network is being shaped in a country with dwindling population. Since 1990, the natural shrinking of the population has been an on-going process in all regions and counties of the country. Cities are also faced with the issue of migration losses, with their population shrinking faster than that of the country. In recent years, the annual migration loss of cities is 6,000 to 8,000 persons, but in 2001 it was 14,000 in Budapest. The population of the capital city in 1980, 1990 and 2002 was respectively 2,059,347, 2,016,774 and 1,739,565. By contrast, the population of the settlements, among them cities, in the metropolitan agglomeration continues to grow robustly.
- The *regional framework* of urban development has changed and continues to change partly as a result of the disintegration of old structures. While earlier strong regional differentiation evolved along the lines of the settlement hierarchy (with a resultant mosaic spatial structure), today both favourable and

unfavourable phenomena emerge at an area and regional scale. At the same time, however, settlement inequalities are becoming fewer.

The order of importance of the *factors causing such inequalities* in the level of development between the individual settlements and regions is changing. While the most important factor of differentiation used to be settlement hierarchical position and the availability of infrastructure and institutions and, due to full employment, the impacts of labour market developments were more moderate, today it is especially *income earning opportunities* (e.g. the chances of success for businesses, labour market conditions and investors' assessment of the prevailing situation) that determine the position of a region. Rapid changes in Hungary's *international environment* soon affected the position of the country's regions. Porous borders and changes in the direction of political and economic relations prioritised the country's Western regions over the ones in the East. The shrinking of the Eastern markets had a similar impact.

Naturally, the urban network was also exposed to the direct effects of the political and social changes:

- After 1990, the political, legal and ownership conditions of the market economy evolved gradually. Settlements and, among them, cities entered the *market of settlements*. Even if possibilities of settlement development remain centrally influenced, as there has been no way of putting an end to such influence (municipalities still receive a high proportion of funds to finance their development and operation from the central budget and the proportion of their own revenues is low, etc.), a number of changes (e.g. transfer of assets to municipalities, proceeds from the sale of municipal assets, enhanced self-governmental character and privatisation, etc.) were conducive to an increase in opportunities for the self-determination of cities. The choice of business premises and the location of some institutions comply with the rules of market competition. Urban characteristics (e.g. geographical location, accessibility, conditions of the natural environment, the availability of infrastructure, labour market conditions, purchasing power, requirements of the population and the standards of city management, etc.) affect the movement of businesses and, in part, of the institutional network.
- The passing of the *Act on Municipalities* in 1990 brought about changes in the public administration conditions of urban development. Advantages and disadvantages arising from difference in legal status were reduced. Neither the law nor the practice of providing funds to settlements makes any material distinction between cities and villages. This has led to the liberalisation of the practice of granting settlements urban status. In consequence, a large proportion of Hungary's 256 cities, approximately 60-70 settlements, do not have urban functions.
- Dramatic reduction in the roles of *counties* that can look back on a long history and have significant clout has resulted in a completely new situation. Counties are no longer allocators of funds or units of power, area development and public administration. Yet, even today when the responsibilities of institutions are allocated, counties as territorial units are taken into consideration almost

exclusively, often without good reasons. Thus, e.g. museums, archives, tourism, public health, justice, libraries and labour affairs, etc. remain the responsibilities of counties. As a consequence, *county seats* continue to play an outstanding role in settlement hierarchy and the organisation of social life even if today this role is easier for rivals to challenge than it used to be.

- The Municipality Act in 1990 abolished *districts* (a territorial level corresponding to NUTS 4). The elimination of the district level deprived small towns of a significant development factor, i.e. their role as spatial organisers, despite the fact that several urban institutions (e.g. law courts, the public prosecutor's offices, police stations, fire brigades, land registry offices, public health and regional labour centres, etc.) still have regional competences. The voluntary associations of municipalities play a less significant role than was expected. However, steps have been taken to administratively legitimate statistically micro-regions, a regional unit corresponding to NUTS 4.

The category of *public administration regions* and their centres in the territorial division of Hungarian public administration is likely to be a new element of hierarchisation.

- While under the socialist council system the amount of funds granted to councils depended on the subjective judgement of the central government and counties, today municipalities receive *quota-based central funding*. Budgetary transfers to municipalities, irrespective of their legal status, are based on quotas per head and on quotas allocated to the individual duties (e.g. number of places at kindergartens, number of students and persons receiving social benefits, etc.). Although municipalities are entitled to levy local taxes, the high level of central taxes lessens the chances of imposing local ones. In consequence, two-thirds of the total revenues of municipalities are from the central budget. Led by old centralisation reflexes, the government makes repeated attempts at restricting the financial leeway of municipalities.

Even though the settlement network is a slow response system, the altered conditions of settlement development outlined above have led to tangible changes in the urban network over the past 15 years that have passed since 1990. Position in the settlement network is unambiguously determined by ranking in the urban hierarchy, the number of urban functions, their proportion of such functions in the provision of services for zones and their weight (unit value) relative to urban size.

The principles and methodology used in international literature were applied to *define urban hierarchy*, i.e. we share the view that position in the settlement network is determined by the composition of *urban functions* in a narrower sense, the presence of certain roles, the presence or absence of the *institutions* that fulfil these roles and the available selection of urban functions (i.e. hierarchically differentiated functions and institutions).⁸

We defined urban hierarchy for several points of time (1910, 1965, 1995 and 2000), always allowing for the prevailing state frontiers. This paper compares the findings of the studies for 1965, 1995 and 2000. In each study, the position of the settlements in the urban hierarchy was determined on the basis of the presence or absence of urban functions/institutions,⁹ i.e. we adopted the *'stocktaking method'*.

The number of institutions included in the studies varied between 90 and 100. We did not look at these institutions as if they had been all that settlements had. Rather, we treated them as a litmus test, presuming that their presence gave an indication of the urban character and the hierarchical level of settlements. Based on the *frequency* of their emergence (dispensation value), the indicators selected were allocated to hierarchical levels. The number of hierarchical levels was determined empirically; it was 6 in each study:

- institutions with national competences,
- institutions with regional competences,
- institutions with county competences,
- institutions in medium-size cities,
- institutions in small towns (with districtic competences),
- micro-regional level institutions with urban functions.

Finally, we determined the *share of these settlements* in the indicators of the individual levels of hierarchy. Cities and town were assigned to the highest level where they still had at least two-fifths of the indicators. Similarly to institutions, 6 levels were established (capital city, regional centres, county centres, medium-size and small towns and ‘embryonic towns’) also within the group of settlements with an urban role.

Short-term Changes to the Urban Hierarchy

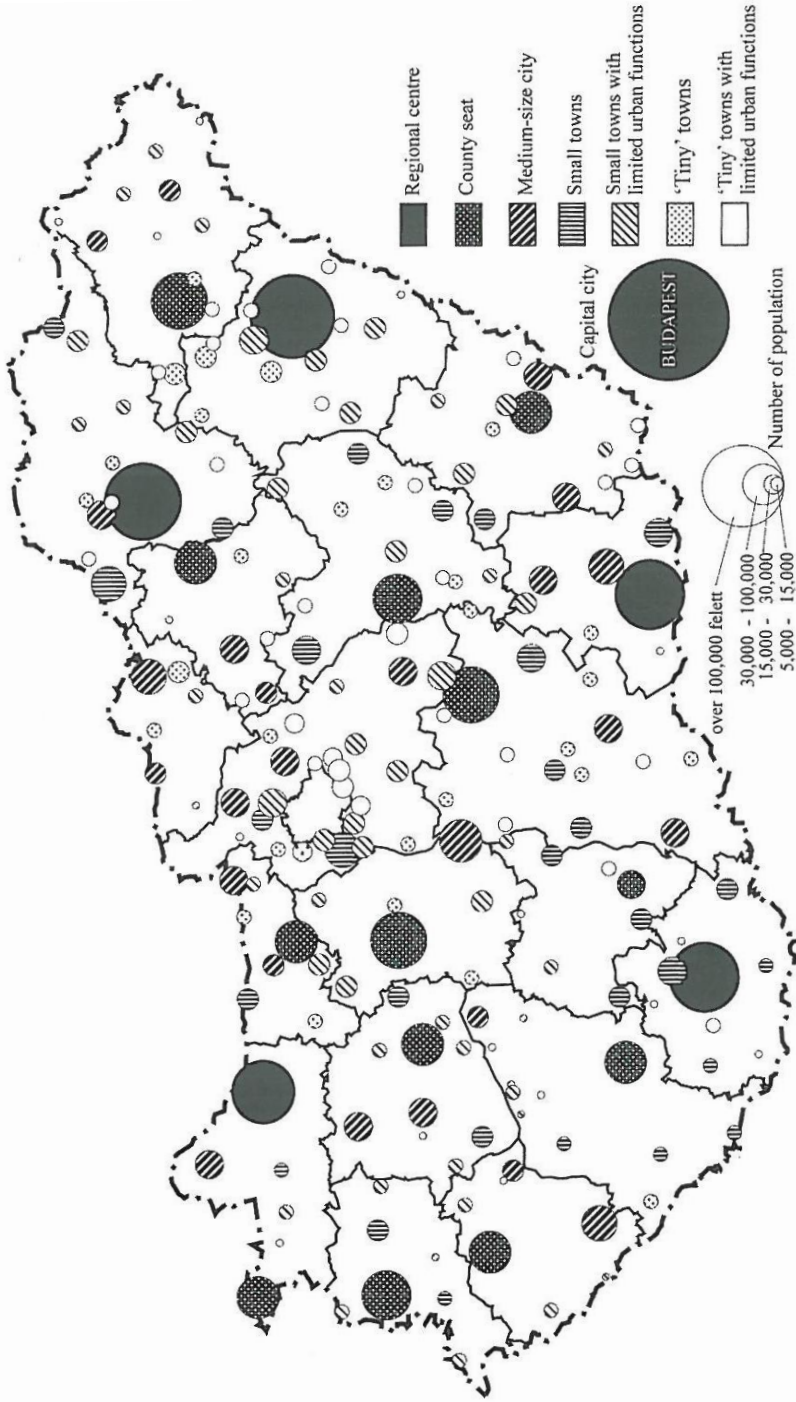
Our studies reveal that out of 256 settlements with urban status, 190 unambiguously fulfilled urban roles in 2002 (Table 22.2, Figure 22.1). The stability of the urban network is clearly reflected in the fact that only minor changes have occurred over the past century (Table 22.3).

Table 22.2 Number (2002) of cities on the individual hierarchical levels, their population (2001) and average number of their residents (2001)

Hierarchical level	Number of settlements	Total number of residents	Average number of population	Average number of population as a % of the preceding level
I. Capital city	1	1,777,921	1,777,921	–
II. Regional centres	5	855,342	171,068	9.6
III. County seats	13	976,816	75,139	43.9
IV. Medium-size cities	25	808,807	32,352	43.1
V. Small towns	79	1,284,390	16,258	50.3
VI. Quasi-towns	82	702,910	8,572	52.7
VII. Settlements with urban status but without urban functions	51	290,942	5,704	66.5
Total number of settlements with urban status	256	6,697,128	26,160	

Source: The authors' own calculations.

Figure 22.1 Cities and towns in Hungary in a breakdown by hierarchy, 2000



Source: The authors' own calculations

Table 22.3 Hierarchical stratification of the urban stock, 1910–2000
 Number of cities on the same hierarchical level in the present territory of Hungary

Hierarchical level	Number of centres			
	1910	1965	1995	2000
I. Regional centres	4	5	5	5
II. County seats	20	12	14	13
III. Medium-size cities	21	33	25	25
IV. Small towns	79	91	83	78
I–IV. Total	124	141	127	121

Source: The authors' own calculations.

Findings on *medium-term* changes to the urban network can be summarised as follows:

The number of cities/towns in the functional sense as we identified them has declined somewhat in the years *since the early 1960s to date*. This mainly affected *medium-size cities* and *small towns*. The former decreased by 8 (or 24%), the latter by 13 (or 14%), while the entire urban stock (including small cities) by 20 settlements. The possible reason for decline in the number of medium-size cities is that they have no counterpart in the Hungarian system of public administration. As to small towns, decline was attributable to the fusion or abolition of districts and the reduction of district seats in the 1960s and 1970s. Thus, the approximately 33 district seats, which were divested of their original functions and had no other important non-administration functions or any other factors, e.g. a large population, which would have helped them survive, no longer fitted into the category of small towns. Below the level of small towns, the settlements with few urban institutions and limited urban functions also fell in number (from approximately 150 in the 1960s to a mere 90 today). As a consequence, at present, there are a set of settlements in the Hungarian urban stock that used to be centres of minor importance, but which are now indistinguishable from villages. Today when public administration, settlement development and urbanisation are only loosely related, it is easier for settlements to become cities or towns again. And chances are that some settlements will make use of this possibility. Currently, requirements of acquiring urban status are rather relaxed. The currently effective municipality law contains one single provision that stipulates the requirements of obtaining urban status. Any township shall be entitled to request urban status if the level of development and the regional role thereof justify the holding of such status (Szigeti 1997). On 1 January 1990, there were 166 cities and towns in Hungary; currently, i.e. in 2004, their number stands at 274.

The reduction of *medium-size cities* in both number and importance continued after World War II. Over a span of well over 40 years their number has decreased by 8. The number of settlements that are no longer included in the category of medium-size cities is obviously higher, as there are cities that have been included into this category. A comparison of the current situation with that in the 1960s reveals that a total of 10 cities have been 'demoted' and left this group. A large proportion of cities/towns going downhill – and not only on the level of medium-size cities, but

also on lower ones – are what is called agrarian cities/towns in the Great Plain. In these cities/towns with 20,000 to 30,000 residents, fairly populous measured against the number of their urban functions, the relative majority of wage-earners worked in agriculture even after World War II. Most of these cities/towns were industrialised in the socialist era. Industry, however, collapsed after 1990, while, understandably, the labour demand of agriculture also diminished.

The group of *small towns* has also changed dramatically over the past 40 years. Of the small towns of the 1960s, 33 (or 36% of the 1965 stock) are now on lower levels in the urban hierarchy. This is also attributable to the fact that the number of small towns fell by 13 in the period intervening between the two dates of study. Due to their public administration status (district seats), it was, in large part, settlements which were centres, but which never became multifunctional small towns that have been ‘removed’ from this level of the urban hierarchy. Already in the final years of the socialist era some settlements in the Budapest agglomeration and holiday resorts at Lake Balaton rose in status and prestige, with their urban functions increasing in number.

Although *short-term changes in the 1990s* did suggest important trends, the urban hierarchy has not undergone material changes over the short period of time that has passed since the regime change.

Although there has been no change in the stock or the hierarchy of *regional centres*, there have been a few shifts recently. The roller-coasting of *Miskolc*, which started earlier, continued. Following its take-off in the socialist era, the city had its downs (e.g. the crisis of heavy industry, unemployment, central funds slowing to a trickle and a rapid fall in the population) already in the 1980s. Yet, it took off again in the mid-1990s. Surprisingly, it caught up with the regional centres providing a full scale of urban goods and services, although it did not manage to revamp or overhaul its industry significantly. The city’s rehabilitation started when its urban functions grew in number and were modernised. It plays a more modest role as a centre of higher education, R&D and culture than do the other four regional centres.

Győr has for a long time partially fulfilled the role of a regional centre and been fifth among provincial cities. However, due, in part, to its strong rivals – e.g. Pozsony (today Bratislava) and Sopron, or even the not too remote Budapest and Vienna in the early 20th century – and, in part, the fragmentation of regional roles – e.g. Sopron, Szombathely and even Székesfehérvár and Veszprém have regional functions in North and Central Transdanubia – Győr has never had the functions of genuine regional centres. This is especially striking in higher education, and could not be offset, at least when we determined its place in the urban network, by the city’s thriving economy, the indubitable sophistication of the incidental characteristics of urban life or the availability of high standards of a middle class existence. Yet, over the past decade the city has succeeded in narrowing the gap between itself and other regional centres, in particular, through its network of institutions operating on a business basis, e.g. financial institutions, insurance companies and economic and household services, etc. As to higher education, R&D, health care and public administration, the city continues to have a limited number of

roles as a regional centre. The two sectors follow two rather divergent paths and have different hierarchical positions.

The regime change created the conditions for the loosening of the hierarchy of *county seats*, a rather uniform and closed group of settlements in the socialist era. Though it seems that the past decade has been too short to be able to bring about more significant differentiation within this group of cities, two points must be made. One is progress in *Sopron's* well-deserved rehabilitation, as it was the 6th city in Hungary's present-day territory with several regional level functions. After a series of 'afflictions' (e.g. the borders drawn in Trianon, the loss of its role as county seat and part of its attraction zone, its location in what used to be a border zone, etc.), it sank to the level of medium-size cities in the socialist era. In the past ten years, however, it has risen to the status of a county centre, the first city among non-county seats to reach this status, primarily through its institutions operating on a business basis, as has been the case with Győr.

A district centre in 1910, *Salgótarján* is one of Hungary's oldest industrial settlements. Our study identified it as a small town with full urban functions. The new status quo created by the Trianon Treaty put an end to competition from Losonc and Fülek. Manufacturing and mining continued to grow, and finally, in 1950, taking over from Balassagyarmat, *Salgótarján* became a county seat. Although it had not developed into a genuine county seat by the 1960s, in the 1970s and 1980s it fulfilled the roles assigned to this level of hierarchy, even if only partially. As coal mining was phased out and high-profile settlement development did not materialise, its hierarchical rank has by now been reduced. The town with its limited hinterland and unfavourable position in the communications network has so far been unable to upgrade its business-based urban functions. Today the town is stuck between these two hierarchical levels, as it continues to fulfil, *ex officio*, certain county centre roles in its capacity as a county seat.

The number of *medium-size cities* did not change in the 1990s. Currently, there are 25 at this level. Over the medium term (i.e. between 1965 and 2000), however, their number decreased by 8. One-fifth of them have been replaced by others. A study registering the current situation found that *Kalocsa*, *Ózd*, *Makó*, *Jászberény* and *Szentendre* were no longer on this level. The path that *Szentendre* has followed in terms of hierarchy is rather singular. Agglomeration trends, a huge swell in tourism and Pest County's search for a county seat (the county's civic centre, the central office of museums and the library were all relocated to *Szentendre*) had raised this typical small town (our study performed for 1965 found *Szentendre* among small towns with limited roles, ranking as 99) to the level of medium-size cities by the end of the socialist era, while even its typically small town functions (in health care, in particular) were deficient. Nevertheless, it is now the 33rd. It seems, however, that the new functions, e.g. financial and business services and commerce, which gained ground in the 1990s, have moved to *Szentendre* only in small numbers. It is not urban services that tourists look for in this small city. We have already provided an explanation for *Ózd's* 'descent'. *Kalocsa*, *Makó* and *Jászberény* found themselves in a relatively disadvantaged position because of a protracted expansion in the urban roles of market towns in the Great Plain. Their sliding into

the status of small towns does not necessarily follow from their position in the settlement network. There have also been a few shifts within medium-size cities. *Baja* has somewhat fallen back in hierarchy, which is all the more striking as both the city and its attraction zone are a long way off from Kecskemét, the county seat; in addition, the size of *Baja*'s potential attraction zone (including Kalocsa and Kiskunhalas and their surroundings, with a population of approximately 220,000) would justify the location of certain county functions here.

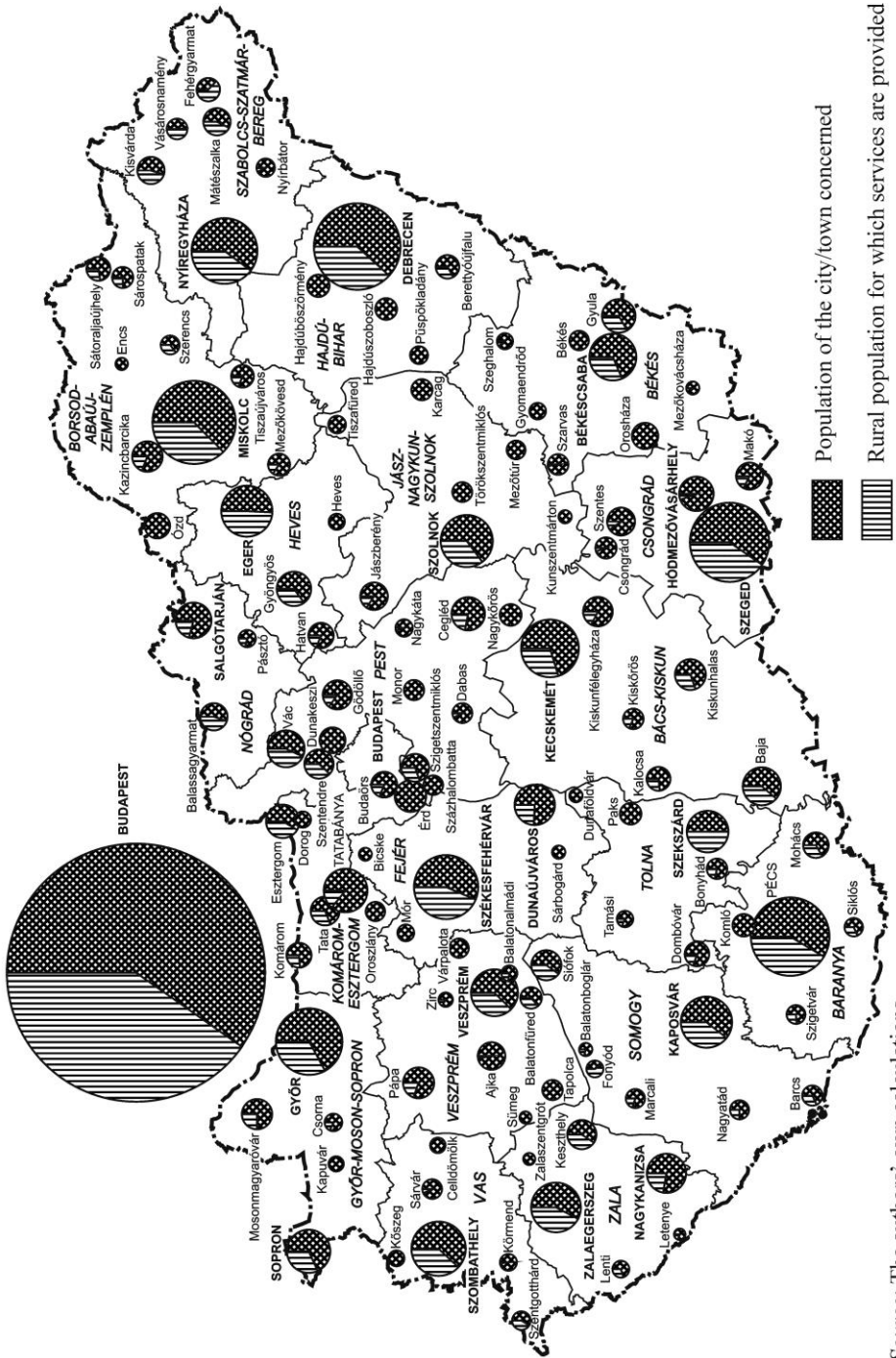
Recently, the number of *small towns* has also dwindled (in 1995: 83, currently: 77). The descent of 'disused' administration centres (one-time district seats) continued, except when the weight of urban institutions of other sectors or well-established urban traditions put a brake on this process (as has been the case in e.g. Kőszeg and Szentgotthárd).

The majority of the towns which have managed to stay on the small town level, but which are, nevertheless, in an increasingly *deteriorating position* lie in Transtisia (areas East of river Tisza), indicating the crisis that this part of the country is in (Enyedi 1996). Area development ought to pay special attention to these settlements because a downward trajectory renders their unaided attachment to the given level difficult. Furthermore, the above mentioned small towns have a sizeable attraction zone each, thus the fading away of their urban roles would result in the emergence of areas wholly lacking in cities (Figure 22.2).

Changes in the Number of the Population Supplied with Urban Goods and Services (a Quantitative Analysis of Urban Functions)

We studied the quantitative aspects of urban functions in the individual cities from several aspects. The reason for doing so, as we indicated, was that hierarchy in a narrower sense only mirrored one aspect of the role that cities play in the urban network. For instance, though on a high hierarchical level the majority of the settlements in the Great Plain do not have an extensive attraction zone, and they provide urban goods, first and foremost, for their own residents. As a result, even when hierarchical positions are identical, the proportion of urban services calculated for zones may vary widely. Although there is a close correlation between position in the urban hierarchy and the quantity of urban functions, the latter may vary significantly on the same level, since, for example, the provision of services for residents in populous settlements require a higher number of certain institutions, which, however, does not directly entail the relevant settlement's rising in hierarchy. Therefore, we also study, in addition to the quality composition of urban functions, quantitative data on urban services. The reason for doing so is that this enables us to infer the size of the population relying on such services and, indirectly, the size of the (theoretical) attraction zone of the city in question. The exploration of the relationship between cities and their environs is one of the most important approaches adopted in research on settlement networks. According to certain approaches (e.g. Mendöl 1963), this is what ultimately decides whether or not a settlement qualifies as a city (the city as a central place).

Figure 22.2 Ratio of the resident population to the population for which services are provided



Source: The authors' own calculations

In order to be able to compare and summarise the various indicators¹⁰, we calculated the *size of the population covered by urban functions*. Such calculation relies on the availability of national data for the number of retail outlets and students, etc. per unit population and, hence, on the average number of residents supplied with urban goods and services by a given institution. In 2001, for instance, the number of persons supplied with urban goods and services by one retail outlet was, on a national average, 63.4 persons. Thus, our calculations reveal that, for example, the number of persons for whom services were provided by the 2,615 outlets in business in Győr amounted to 166,000. The above figures, net of the population of the city, leave us with the number of persons supplied with urban goods and services in the attraction zone, i.e. the ‘significance surplus’ of the city, which, as some geographers (Major 1964) argue, is the genuine measure of the urban hierarchy. In the above case this value is close to 40,000 persons provided with retail services in the attraction zone. Measuring the weight of urban functions by the number of the population supplied with urban goods and services allows for the comparability of the individual roles and institutions and the determination of their weight. In effect, the calculations could have been performed by one single indicator. However, in order that more accurate results could be obtained, we used several indicators. The final result, i.e. the total number of the population and the population in the attraction zone supplied with urban goods and services by the individual cities, is reached through averaging the calculated attraction zone-to-centre ratios (the quotient of the population supplied with urban goods and services in the attraction zone and the city’s own population). The indicators were selected in order that they could measure the weight of the roles played by small towns and medium-size cities as well as the size of small town-level attraction zones, since members of the entire Hungarian urban network could only be measured in this manner. (For obvious reasons, these indicators cannot measure the weight of urban functions perfectly. Rather, they indicate major trends.)¹¹

The analysis resulted in new rankings: the hierarchy based on the total population and the population in attraction zones supplied with urban goods and services by cities and the hierarchy based on the attraction zone-to-centre ratios. Their comparison with each other and with position in the urban hierarchy holds a few intriguing conclusions. The number of the population supplied with urban goods and services in attraction zones may also assume a negative (theoretical) value. This means that the settlement in question was unable to fully supply its own population with urban goods.

In the first approximation we calculated the correlation between urban population and the zone-to-centre ratio. The calculation was meant to test the assumption that more populous cities have proportionately larger attraction zones. The result of the correlation calculation ($r=0.18$) reveals that there is no such correlation. Marked central functions of settlements are independent of settlement size: both small and large settlements may have such functions. This apparent contradiction can only in part be explained by their hierarchical positions, though as we pass down the urban hierarchy, decrease is unequivocal. The zone-to-centre ratio for cities/towns on

Table 22.4 Population covered by urban functions in 2001

Hierarchical level	Number of settlements	Average number of population	Average total population supplied with urban goods and services	Average zone population supplied with urban goods and services	Zone population supplied with urban goods and services /urban population (%)
I. Regional centres	5	1,68,350	271,975	103,624	62
II. County centres	13	74,471	118,959	44,488	60
III. Medium-size cities	25	32,234	44,225	11,990	37
IV. Small towns	78	16,429	17,750	1,321	8
I–IV. Total	121	3,897,193	5,396,448	1,499,255	38

Source: The authors' own calculations.

lower levels of the urban hierarchy is, on average, lower (Table 22.4). While in the early 20th century this category included almost exclusively market towns in the Great Plain with *tanyas* and a large boundary each¹² (Beluszky and Győri 2004), today populous settlements with no attraction zones can be broken down into three well-defined groups. One is 'sleeping towns' with a swollen population in the Budapest agglomeration (e.g. Érd, Monor, etc.), the second is those (former) market towns in the Great Plain (e.g. Hajdúböszörmény, Orosháza, Nagykőrös, Karcag, Mezőtúr and Gyomaendrőd, etc.) where the central function has never become characteristic and the third is lopsided industrial socialist cities/towns with deficient functions (e.g. Ózd, Komló, Várpalota and Oroszlány, etc.)¹³ (Table 22.2).

A comparison with data from a few decades earlier (1965) leads us to the conclusion that, the entire urban network and all hierarchical levels considered, the zone-to-centre ratio has deteriorated and the number of the zone population supplied with urban goods and services has dwindled by today. By contrast, the total number of the population supplied with urban goods and services has increased. This is only to mean that the number of the urban population has practically doubled in Hungary in the past less than 100 years (since 1910), and attraction zones are, in a large part, 'within city walls' now (Beluszky and Győri 2003). On the other hand, not even on this long timescale has any significant restructuring of the urban network occurred. The ratio of the population supplied with urban goods and services is similar on each hierarchical level.

Changes to the ranking based on the zone-to-centre ratio are characteristic. Earlier small towns and medium-size cities with an unmistakable urban profile, with a few county seats among them, in West Transdanubia and Northern Hungary headed the list. Of the cities/towns in the Great Plain, only those that were not traditional market towns had the chance to join this distinguished 'club' of the best. In 2001 only the small-town centres (Fehérgyarmat, Vásárosnamény, Mátészalka and Kisvárda) of the small and medium-size village-studded Szabolcs-Szatmár-Bereg County boasted a high zone ratio. Of the county centres, Szekszárd, with the

lowest population and the only centre in rural Tolna County for a long time, and Eger, the seat of Heves County, Tolna's kindred, have been included in this category.

Essentially, no change has occurred in the top category of the total population and the zone population supplied with urban goods and services. Regional centres continue to head the list, followed by county seats. Only a few cities, e.g. Nyíregyháza, the unquestionable winner of the county seat development in the socialist era, and Vác, which has strengthened its position as a medium-size city on the edge of the Budapest agglomeration, have managed to improve their position significantly. By contrast, the large majority of the medium-size cities (former county seats) in Transdanubia (e.g. Nagykanizsa, Pápa and Baja on the Great Plain side of the River Danube) have registered a major loss of position on a timescale of several decades.

Conclusions

The dismantling of the socialist economic and social system and economic recession hit cities and towns hard, and the regime change held in store some adverse consequences (e.g. the disappearance of their privileged position in the system of redistribution, the introduction of a new staff level-based and task-proportionate scheme of municipality financing and, most importantly, the serious crisis facing urban industry, etc.) for them. The 'new blossoming' does not hold the promise of restoring the 'old garden'. *Budapest*, the most colourful flower in this garden, can improve its position through, in particular, joining the hierarchy group of international cities, e.g. global metropolises. It is an intermediary between the world and Hungary, and this intermediary role benefits the *country as a whole*. The *urban hierarchy* is expected to play a dual role in the future. The allure of the established hierarchy is considerable: as a rule, high quality urban goods and services become available across the country in a manner that follows the model of hierarchical spread. On the other hand, the rigid hierarchy of the past may also loosen up, as the economy and social institutions under reorganisation are no longer pressed administratively to move to certain locations, e.g. to county seats, in the hierarchy. This is likely to disrupt the urban group of county seats, which formed a close-knit solid unit in the socialist era, and county seats will not automatically become winners. Medium-size cities, mainly living off the legacy of past ages, are now either in a grave situation or have come to a crossroads. They either forge ahead in the competition and catch up with county seats, as has been the case with Sopron, or, and this is a real threat, they slip back into small town existence, as is the case with Mohács, Nagykőrös, Karcag and Sátoraljaújhely. Only rarely do current settlement network conditions account for their 'in-between position'. The small town status alone has so far proved insufficient to achieve success, as momentary positions are determined by regional position, the possession of special roles, e.g. Szentgotthárd: premises of an Opel assembly plant, Balatonfüred: a spa and a holiday resort town, Szentendre: a town of museums, Kőszeg: the proximity of the state frontier, a town with listed buildings, etc., or by dynamic and successful city/town management. The

possession and development of special roles may be a matter of life and death mainly for small towns and, within this category, small towns in the Great Plain, because classic urban roles do not seem to be able to guarantee 'soaring success' in the lower regions of urban existence. A setback in the past, location along the border, may also mean special potential. With the borders open, the cities/towns here may become the scenes of 'exchange' (as is already the case with e.g. Mosonmagyaróvár, Kőszeg, Szentgotthárd and Sopron, etc.). Declining purchasing power in extensive regions of the country and wide social strata drastically reduced the consumption of urban goods and services. An anticipated increase in the purchasing power of middle and lower-income groups and an urban middle class lifestyle may boost demand for urban goods and services. This is, however, unlikely to present itself proportionately on each level of hierarchy or in each group of functions. Demand for de luxe goods and services (e.g. leisure time activities, entertainment and sports, leisure and tourism (hospitality), travel agencies and luxury items, etc.) is likely to grow at a faster pace, and, presumably, it is the settlements on the lower levels of urban hierarchy that will benefit the most from this. It is equally obvious that, owing to polarisation after the regime change, demand for urban goods and services has become stratified (wealthy entrepreneurs, well-paid professionals and widowed old-age pensioners in the small pension brackets have different demand). It is in the interest of urban societies to assess the demand of their respective attraction zones and tailor the supply of goods and services accordingly. This paper discussed regional differences in urban development, which seem to be deepening, at least transitorily. All this will render the Hungarian urban stock multifaceted in the future. Its unique character and otherness and a broad spectrum of what it has to offer may give it a competitive edge in the urban competition.

NOTES

- ¹ Certain 'market components', e.g. the selection of business premises by private entrepreneurs, differences in the Hungarian population's purchasing power, advantages and disadvantages arising from regional location or even the impact of regional lobbying groups, which were active already in the socialist era, etc., had a share in the shaping of the settlement stock already before 1990.
- ² Budgetary funds allocated to the individual settlements, the selection of premises for state-run institutions and the size of housing quotas, etc. depended, in a large part, on the public administration status of the individual settlements, whether or not they had urban status and whether or not they were seats in any of the 19 counties or districts, the latter being a mid-level unit of public administration.
- ³ As was the case after 1990 along the Austrian border, where the prosperity of the towns and cities on the Hungarian side was attributable to health tourism boosted by the lower costs of medical treatment.
- ⁴ Unique historical development – during the Ottoman conquest (16th and 17th centuries) the destruction of the majority of settlements, the migration of the remaining population to large settlements offering some protection and the dominance of rough grazing requiring

vast expanses of land within the boundaries of the individual settlements – in the Great Plain, one of Hungary's large regions, led to the emergence of populous settlements where the majority of the population were farmers and where urban institutions providing goods and services for a large population of the urban middle class also found home.

⁵ Before 1948, counties were divided into districts. (In 1984 this unit of public administration was abolished.) Their number varied over time, standing at 140 in 1950, 128 in 1960 and 107 in 1970.

⁶ 'Districting' was the relocation of the institutions of the basic institutional network (e.g. primary schools, party offices, the offices of the local authority and sometimes parsonages, etc.) in areas with a large number of small villages to larger villages. As a consequence, small settlements were left without basic institutions.

⁷ The so-called 'associate villages' were those villages placed under joint public administration where there was no local authority office (the so-called 'village council').

⁸ The term 'city' is interpreted in accordance with the currently most widely accepted view, i.e. the city is the product of the geographical division of labour established within the settlement stock; a settlement which plays a central role in this division of labour, and where a satisfactory number and variety of basic urban functions is concentrated; thus, it is a settlement where activities and institutions satisfying the non-daily needs of the population converge. By virtue of its settlement network role, the city is a prominent site of exchange, communication and 'encounter' in a world structured by territorial division of labour. Naturally, it is the site of not only the exchange of goods, but also of knowledge, information, cultures and ideas. Relying on its central role, the city exerts significant control over spatial organisation, and is often the centre of decision-making and powers.

⁹ Under another common approach, the urban hierarchy is subject to the zone ratio of urban services. This approach or method of calculation assumes that the city plays the role of a zone supplier within the geographical division of labour, thus, its role in the settlement network (i.e. its hierarchical rank) can be determined by the volume of the services that it provides for its zone. (This is the very approach that Christaller /1933/ adopted in his now classic study. He determined the 'significance surplus' of telephone stations by calculating whether certain settlements had a higher or lower number of subscribers, relative to the regional average, than what would follow from the size of their population.)

¹⁰ Indicators used to analyse the quantitative aspects of urban functions:

- number of retail outlets (numbers), 2001,
- annual surgery hours of specialist outpatient care (hours), 2001,
- number of day students in secondary education (persons), 2001,
- number of business partnerships (number), 2001.

¹¹ We must stress that the various results of these calculations are 'fictitious figures', i.e. they do not mirror the actual situation. The margin of error could be narrowed by calculations based on regional or county average values. Although we could assess the settlement network role of a given settlement in its own environs and region more realistically, by doing so, we would compromise the accuracy of comparisons on the national scale. The concentration of urban roles, or rather, of the sectors that we included in our considerations, varies from one region to the next, with the extent of concentration depending on, e.g. settlement structure and purchasing power, which also vary from one region to the next.

- ¹² No villages came into existence in the large boundary of market towns. Instead, there emerged tanyas, special isolated settlements. Their special character lies in the fact that their owners had a house both in town and in the tanya, the latter being a ‘co-settlement’ on a divided plot of land with mainly farming functions.
- ¹³ Established around industrial facilities, e.g. metal works, power stations, chemical works and coal mines, etc., after World War II, mainly in the 1950s and 1960s, ‘socialist cities/towns’ were industrial settlements with lopsided industrial roles. Essentially, they were urban size housing estates.

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Knowledge-based Innovation Potential of the Hungarian Urban Network at the Turn of the Millennium

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Introduction

Research on the Hungarian urban network has been experiencing something of a revival since the early 1990s. System change has completely transformed the entire network. New functions appeared that restructured urban economies. Some formerly dominant and powerful economic centres have declined. Meanwhile, some other locations have emerged which did not play such a central role in previous times. The number of towns has increased rapidly. However, the urban network has not only been characterised by quantitative growth, but also by the onset of intense competition among its various constitutive parts. New roles and functions required towns to offer novel features to investors and those wishing to settle there. Hungarian research on urbanisation has sought to keep pace with this restructuring of the urban network. In 1990 there were 164 towns containing 29% of the country's population. By contrast, there were already 251 towns in 2001 accounting for 48% of the total population (Rechnitzer 2002).

At first, research efforts concentrated exclusively on the description of the characteristics of the urban network aiming to portray its supposed, or observable, transformation. The analysis of the urban network's innovation potential found its structure to be deeply divided (Rechnitzer 1993). Members of the network with regional functions moved upwards, while medium-sized towns, secondary regional centres and peripheral towns were slow to develop. During the early years of transition, the majority of small towns were completely unable to adopt innovation factors and institutions. A study on changing economic roles in the early 1990s (Nemes Nagy 1996) revealed the existence of dramatic disparities in the location of FDI. An East/West dichotomy dominated the picture. That is to say, changes in the structure of urban economies were crucially dependent on geographical position in the first transitional period. There have been, however, more and more indications of the beginnings of competition among the towns themselves (Enyedi 1997; Lengyel

and Rechnitzer 2000). First, distinctive features and strategic components of this urban competition have begun to appear. Second, diachronic studies revealed the emergence of considerable disparities within the network of large towns. By the end of the 1990s, such inequalities had less to do with geographical location and characteristics, and much more with urban policies as well as the diverse internal and external factors impacting on these policies. Researchers started to focus increasingly on possible explanations of the successful performance displayed by some towns since not only regional theory but also political actors were interested in identifying the factors that accounted for higher rankings and improved positions in the competition. A number of comparative and evaluative studies were produced (Csapó 2002) aimed mainly at ranking large towns. These studies, however, did not rise above the level of mere statistical descriptions. To use a current expression, they stayed at the level of blunt ‘benchmarking’. They were not able to capture the essence of new tendencies, set up classifications of development groups or evaluate future prospects. Nonetheless, they provided useful input for a characterisation of transition in the urban network thus anticipating the directions taken by in-depth analyses that were to follow. In the meantime, however, a number of studies have appeared covering the whole of a given town’s development trajectory and searching for underlying causes and driving forces. Such studies can also contribute to the elaboration of future strategies (Szirmai *et al* 2002; Izsák 2003; Timár and Velkey 2003).

The restructuring of the urban network during the transitional period in the 1990s involved a simultaneous transformation of the driving forces themselves (Rechnitzer 2002). During the first years of transition, institutional environment and traditional economic functions (i.e. manufacturing, presence of large companies) strongly impacted on the structure of the urban network. By contrast, in the second half of the transitional decade, market-oriented economic and business services already constituted one of the most important groups of factors with a significant influence on the urban network. The other important group included institutions and activities associated with consumption. Finally, the presence of organisations and actors providing knowledge and expertise became increasingly valuable as well. The comparative surveys mentioned above were complemented by analyses of info-communicational institutions, infrastructure and their respective impact on the urban network (Dőry and Ponácz 2003; Rechnitzer *at al* 2003). The assessment of the most recent systems for personal, communal and institutional technologies of communication and information allows us to conclude that the Hungarian urban network is fraught with deep divisions. Disparities are even more impressive in this particular area than the inequalities suggested by overall development indicators.

These interim results turned our attention to the new elements of urban development and network organisation at the turn of the millennium, i.e. at a time when the process of social and economic system change is nearing completion. Regional processes clearly show that human factors as well as knowledge relying on these factors are the key to future development (Rechnitzer and Smahó 2004). Knowledge-based factors, institutions shaping these factors and the products representing this knowledge constitute together a crucially important new resource.

At the same time, they also characterise the future innovation potential of the towns themselves.

We were interested, first of all, in finding out more about the internal scope and cohesion of factors representing various forms of innovation. Second, we also wanted to answer the question how these factors are interrelated and to what extent they have impacted on various elements of the network. Third, we sought to group together towns which show similarities in respect of the presence of knowledge-based factors, while also trying to establish the reasons and causes for regional divisions and sketch various paths of prospective development. This last aspect is also important because it helps us to register changes in the network and identify central locations continuing to act as repositories of innovation as opposed to those units which have not been able to integrate new innovation resources.

Methodological Issues and Fundamental Descriptive Statistical Characteristics of the Settlement Network

We believe that in order to obtain a clear picture of the innovation potential of settlements (which can take various forms), it is necessary to elaborate a *unified model* that includes:

1. material-objective determinants of innovation (e.g. level of economic development in terms of households and organisations, institutional networks, employment and unemployment, etc.);
2. human resources potential (e.g. schooling, share of highly-qualified workforce, higher education, R&D, etc.);
3. local aspects of innovative behaviour and activities of supporting institutions (e.g. patents, innovation-promoting institutions, share of R&D sector, etc.).

The first step in the study of *innovation clusters* was to create a compound index combining those elements from the total set of urban network indicators which are pertinent to innovation (principal component analysis). Subsequently, through the simultaneous inclusion of principal component values, groups of towns at roughly equal level of development are isolated from one another by means of cluster analysis. We are aiming to systematise and group Hungarian towns according to their current stage of development using *multi-variate data reduction* and *classification procedures*. This is to be done in a way so that economic and social disparities in innovation conditions are represented on the basis of the largest possible number of background factors.

The urban database created mainly from publications of the Central Statistical Office (including statistical yearbooks and the TSTAR settlement-level database) and own surveys of the Western Hungarian Scientific Institute of the Centre for Regional Studies (of the Hungarian Academy of Sciences) included more than 80 *relevant variables*. These variables were used to generate a handful of development indexes. These served in turn as principal classificatory criteria for the identification of innovation settlement groups. Data reduction is required for the purposes of cluster analysis because the simultaneous inclusion of 30-40 development indexes could otherwise render the interpretation of urban clusters impossible. This

statistical procedure is used to generate standardised variable (on a ratio scale of measurement). These variables represent, therefore, certain characteristics of a given settlement (e.g. economic development, human resources, etc.) through a *single value* that combines a considerable share of the available information. Needless to say, not all indicators are suitable for the purposes of data reduction. Some of the available urban indicators had to be set aside in the analysis as they could not be accommodated within the already established development categories. At the same time, we have still used 40 different variables which, according to our conception of innovativeness, play a dominant role in shaping the innovation capacities of a region.

This procedure enabled us to compress our original variables into *five dimensions*. The *economic development indicator* encompasses data on population, local economic actors, institutions and organisations involved in economic activities. The four indicators of the *education-management* principal component concentrate labour market data of the general census conducted in 2001. This indicator represents economic and state competencies and functions that rely on advanced, service-oriented, highly-qualified workforce with university qualifications in executive positions. The indicator of the *social activity* principal component relies on data concerning electoral participation at the referendum on Hungary's accession to the European Union, the organisational and financial (sponsoring) background of civil society and the diversity of local public discourse. The *human resources* dimension expresses the share and development of the higher education sector in terms of institutions and resources. The indicator of the *innovation* principal component compresses four variables directly and another eleven variables indirectly. The structure of this set of variables shows that this dimension mainly serves to characterise local innovation activities, supporting real and digital institutional systems and services environments.

Potential Development Clusters of the Hungarian Urban Network

By means of the 'compiled' development indicators we have put together, we sought to classify¹ Hungarian towns in a way that allows us at the same time to take into consideration motivating factors with a positive influence on local innovation potential. In the course of this two-step procedure we have succeeded in isolating eleven different groups. All of these appear as relatively homogenous in the space delineated by the economic, social, educational, human and innovation axes. This also implies that these groups differ from one another in distinct ways.² Town groups obtained by means of the hierarchical and K-means methods were merged into a single system. This also altered their former cluster designations as well. In order to establish *development groups*, the centrally important statistical figures of the five indicators had to be compared cluster by cluster. This method alone allowed us to attribute specific 'characteristics' to each group taking all five dimensions into account simultaneously. In what follows, we are first going to order clusters, which differ from each other in terms of innovation potential, according to their respective

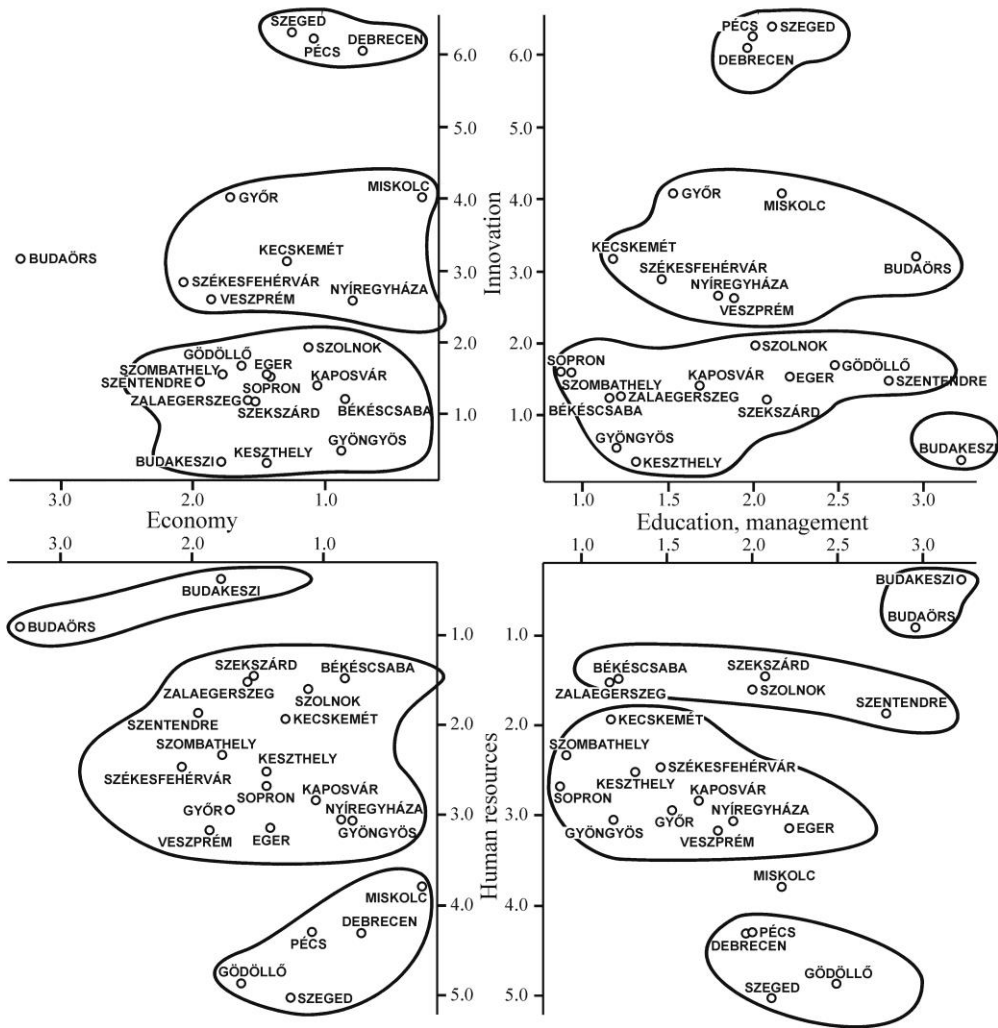
Table 23.1 Group characteristics (principal component averages*) according to five dimensions of development 2000–2003

Clusters	Economy	Labour market	Social activities	Human resources	Innovation potential
1	1.01 Above average	2.02 Strongly above average	1.73 Above average	4.54 Exceptionally high*	6.20 Exceptionally high
2	0.52 Average	2.03 Strongly above average	1.43 Above average	3.43 Strongly above average	3.31 Strongly above average
3	1.69 Strongly above average	1.39 Above average	1.66 Above average	2.45 Strongly above average	3.34 Strongly above average
4	1.40 Above average	1.45 Above average	2.09 Exceptionally high	2.61 Strongly above average	1.64 Above average
5	1.54 Above average	2.01 Strongly above average	2.27 Exceptionally high	1.61 Above average	1.44 Above average
6	1.31 Above average	1.66 Above average	1.55 Above average	3.48 Exceptionally high	0.83 Average
Outliers**	2.54 Exceptionally high	3.08 Exceptionally high	1.26 Above average	0.65 Average	1.75 Above average
7	0.46 Moderately above average	0.66 Moderately above average	0.48 Moderately above average	0.52 Moderately above average	0.34 Average
8	1.16 Above average	1.21 Above average	0.98 Moderately above average	-0.05 Average	-0.05 Average
9	0.54 Average	-0.15 Below average	0.34 Above average	-0.26 Below average	-0.22 Below average
10	-0.58 Below average	-0.08 Above average	-0.37 Below average	-0.33 Below average	-0.31 Below average
11	-1.04 Strongly below average	-1.06 Strongly below average	-1.14 Strongly below average	-0.58 Strongly below average	-0.47 Strongly below average

* Maximum values – Economy: 3.31; Labour market: 3.22; Social activities: 3.04; Human resources: 5.03; Innovation: 6.31.

** Budaörs and Budakeszi, two towns in the Budapest agglomeration that do not constitute a unified cluster and are not integrable into other clusters. Source: Horváth and Rechnitzer (2004). Based on the calculations by MTA RKK NYUTI 2003.

Figure 23.1 Position of towns concentrated in the six most developed clusters according to individual group-building dimensions, 2001



Source: Horváth and Rechnitzer (2004)

levels of development. Subsequently, we are going to characterise individual groups by comparing average values which are most typical for the five dimensions investigated (Table 23.1, Figure 23.1).

The three large towns of the *first cluster* (Szeged, Pécs, Debrecen) are traditional regional centres concentrating higher education institutions and innovation processes. Their labour market and economic parameters are favourable. These centres 'absorb' more than 10% of all the urban population not living in the capital (accounting in total for 5 million people). They are the most innovative members of the domestic urban network. In addition to indicators pointing to above-average qualifications and a knowledge-oriented labour market, these towns are primarily distinguished by particularly high averages for human resources and innovation figures. The *second cluster* includes large towns with central functions (Miskolc, Nyíregyháza) that also belong to the front rank in terms of development characteristics associated with innovation lagging behind the first group only due to their economic parameters. These two settlements make up 6% of the urban population not living in the capital. Even in comparison to the whole of the urban network, their economic performance is hardly above average. There will be no obstacles to their playing a more active and more successful role in innovation as long as their economic output, unsatisfactory at present, begins to improve. Győr, Székesfehérvár and Kecskemét (7% of the urban population excluding the capital) belong to the *third cluster*. If the whole set is taken as the basis of comparison, they can also be ranked among towns with exceptional innovation potential. There are numerous innovation initiatives and the required institutional background is available. At the same time, their potential in terms of human resources is more limited. Other shared characteristics, distinguishing these towns from the rest, is the presence of highly developed economic factors and the large share of foreign direct investment.

Members of the *fourth group* include representatives of secondary centres (e.g. Sopron, Szombathely, Eger) showing less dynamic development. The main reason for ranking them among clusters with exceptional innovation potential is the availability of higher education functions in these towns. These six towns (accounting for 8% of the urban population excluding the capital) all show higher-than-average values for each of the indicators. However, their rate of innovation is much lower than what has been registered in previously mentioned groups. Factors associated with human resources and higher education are already available. Economic and social conditions are also favourable. The limited local availability of institutional systems supporting and serving innovation constitutes, however, a serious problem. There are few fully realised innovative initiatives. Towns of the *fifth cluster* (e.g. Szentendre, Zalaegerszeg, Szolnok) clearly do not qualify as settlements with central roles in terms of innovation characteristics or higher education/research factors. These towns account for 4% of the urban population. The development level of the human resources and innovation dimensions is roughly the same throughout this group. Their distinctive marks include vigorous social life, promising indicators for education and favourable figures for knowledge-oriented, leading, white-collar positions relative to the total population. Three

medium-sized towns (Gyöngyös, Keszthely, Gödöllő) largely focused on higher education, accounting for less than 100 000 people, form a *separate cluster*. Their development indicators representing background factors necessary for innovation can be said to be generally favourable. At the same time, development indexes are characterised by a large degree of inconsistency. Although higher education and R&D are very strongly present and the share of adequate local human resources is exceptionally high, the number of local innovation initiatives remains at an average level. The diversity of the institutional background for innovations is also much more limited than that in previously mentioned clusters. Budaörs and Budakeszi, two settlements of Budapest's agglomerational ring, do not 'fit into' the classification at all. These two organisational centres of the agglomeration are characterised by highly attractive economic and labour market features and a good innovation potential coupled with moderate human resources parameters (higher education, R&D). In terms of economic and educational characteristics as well as indicators of advanced, knowledge-based, highly qualified positions on the local labour market, both of these settlements can be completely set apart from other towns.

The second set of towns ranked in the second division with regard to their local innovation potential includes 43 settlements scattered all over the country. These towns are grouped into two clusters. Excluding the capital, one-fifth of the urban population (a total of 960 000 people) lives here. Classificatory indicators signal moderately developed conditions for all members of the *seventh cluster* with slightly above average human resources and innovation conditions. In other words, this reference group includes towns positioned close to, or slightly above, the average of development parameters typical for the entire urban network. The group includes former and present industrial centres, most of the socialist industrial towns and less advantageously located county seats. These towns were heavily influenced by transitional and restructuring processes. Depending on how they reacted to these changes, development trajectories can point either in a negative or positive direction. The *eighth group* concentrates holiday resort towns, settlements benefiting from tourism, micro-regional centres, and newly-emerging industrial centres. Economic and labour market opportunities are favourable in these settlements. The share of people with university qualifications and those in white-collar positions exceeds the urban average. As far as innovation potential is concerned, however, values remain at average level in key human resources and institutional areas. Their economic parameters are better than those of towns in the seventh group, but they lag behind in terms of elements associated with innovation.

If a more simplified presentation was used, over 180 members of the Hungarian urban network, accounting for more than 2 million people, could be said to constitute a single cluster with one common distinguishing feature: underdevelopment. Establishing the three groups below serves only to portray differing degrees of backwardness. The main differentiating criterion in these groups is not the human resources component, heterogeneity of the institutional background for innovations or varying levels of higher educational functions. These towns fall behind with regard to support for innovation and the restructuring of local economy and society

in equal measure. Nevertheless, other criteria such as economic potential, education, viability of civil society, and diversity of local public discourse clearly split this large block into three groups that correspond to distinctly different levels of development. Members of the *ninth cluster* are characterised by average economic and social indicators, unfavourable innovation opportunities and the lack of adequate human resources. In the *tenth group*, inadequate innovation, higher education and R&D characteristics are coupled with moderately underdeveloped economic and social conditions. The most backward settlements of the Hungarian urban network are assembled in the *last group*. They consistently display poor development indicators together with a complete lack of innovation potential.

Cluster averages used for the interpretation of clusters well represent the existence of three different levels of development in this block (Table 23.1). Only towns of the ninth cluster stand out to a certain extent since their economic and social parameters approximate the overall average and only more specific indicators reveal their relative backwardness. These towns are similar to members of the seventh cluster in terms of economic and social indicators, although the two groups radically differ in their innovation characteristics. What poses the greatest difficulty for these towns is the fact that they have to struggle at the same time with a complex set of problems. Every component of the ‘configuration’ underlying innovation opportunities is negative, even if not to the same extent. For these towns, the following problems would have to be solved simultaneously:

1. low employment, weaker purchasing power of local households, narrow entrepreneurial sector, lower tax revenues;
2. inactive civil society, few grassroots initiatives, limited local public discourse;
3. underdeveloped labour market, lack of local white-collar, executive and academic workforce with university qualifications, limited presence of the services sector.

In addition, there is an almost complete lack of human resources and institutional conditions required for R&D processes and innovative ideas. In other words, what is missing is an innovation-friendly environment that could provide adequate support to such processes in the economic, administrative, health or education sectors.

Setting aside further details, it is also worth looking at the combined group structure of the dimensions used in this study. The actual distribution of clusters throws light on one of the most important peculiarities of the domestic urban network in the area of innovation propensity and conditions. Since the ranking of clusters roughly corresponds to different levels of development, this ranking can also help to grasp the ‘*macro-structure*’ of urban innovation potential. In 75% of the 251 towns, we have not found favourable characteristics for any component of the innovation prerequisites. The majority of towns included in the ninth, tenth and eleventh clusters still lack economic, social, educational and research conditions and related functions presupposed by innovation processes. Another larger block emerges as well from the seventh and eighth clusters. These two groups were labelled as the ‘second division’ since they display average or slightly above-average parameters. Several important institutional and human resources conditions of future development are already possessed by 17% of the towns. However, only a

small ‘minority’ can boast adequate innovation characteristics together with the closely-related favourable economic, educational and social parameters. The factors compiled and applied in this study allow us to conclude that only 8% of the urban network can be described as having an adequate innovation potential.

Population and Territoriality – Demographic and Territorial Characteristics of Innovation Potential

We now go on to compare and describe individual innovation clusters without the help of the ‘well-tried’ principal components returning to the original variables that stand for various characteristics of the Hungarian urban network. Three elements were considered when comparing large blocks of urban groups located at different levels of development. First, we looked at the correlation of local urban population and innovation potential. Although it seems evident that there exists a positive correlation between these factors, it is worth asking how strong the connection may be and whether we can find atypical cases that do not fit into the systematic framework. Second, it is also to be clarified whether we can establish the existence of territorial disparities in the distribution of development groups. This problem can help to identify potential high-density points within the set of disadvantaged towns. Finally, we are to pay special attention to the ‘age’ of the towns concerned as well. Age-groups formed according to the year in which a certain settlement was granted ‘town’ status will enable us to further fine-tune the interpretation of clusters.

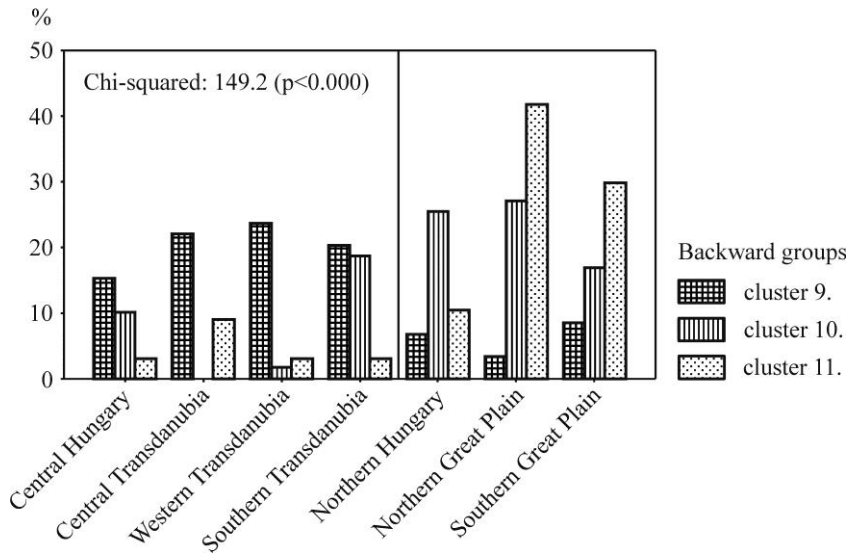
A very strong *correlation* can be observed *between* the size of towns in terms of *population* and their respective *innovation potential*. Pearson’s correlation coefficient is 0.804. Looking at extreme values of individual clusters, we will find that the majority of Hungarian towns with populations below 40 000 inhabitants lack the requisite background conditions of an innovation-friendly environment for economic and social actors of the given region. They are disadvantaged both in terms of human resources and institutional conditions. In other words, population size enables us to draw a relatively precise dividing line within the Hungarian urban network.

The *regional distribution* of development groups can also help us to expose disparities in innovation potential. First, it is important to establish the distribution of towns within individual (NUTS-2) regions relative to cluster classification. This serves to locate high-density points within regions. Second, the relative weighting of towns of different regions within each cluster can also throw light on important characteristics. With regard to divisions within regions, several high-density points can be identified. The eighth cluster, accounting for 9% of all towns, dominates the region of Central Hungary. There, one-fourth of all towns can be assigned to this cluster. Members of the ninth cluster are over-represented among towns located in the regions of Central Transdanubia and Western Transdanubia. In the total population, ‘only’ every fourth town belongs to this group, while in these two regions every second town was unable to acquire significant innovation potential despite the presence of average economic and social background conditions. In Southern Transdanubia and especially Northern Hungary, a growing number of moderately

underdeveloped towns (tenth cluster) can be observed. The two regions of the Great Plain are facing the most difficult situation. The share of the eleventh cluster containing the most disadvantaged members of the Hungarian urban network is particularly high in these regions. While only one out of four towns can be classified as completely backward in the total urban population in terms of innovation, every second town can be assigned to this group in these two regions. In addition, another 25-30% of settlements here belong to the tenth cluster differing from the eleventh only in degree. In the Southern Great Plain 70% while in the region of the Northern Great Plain 80% of towns can be labelled as backward.

Turning our attention to relative *shares of regions within clusters* (Figure 23.2), we can observe even more clearly the structural discrepancies of the Hungarian urban network. In order to interpret relative shares in this context, it is also important to consider the regional distribution data of settlements. This is because 22% of all towns are concentrated in the region of the Northern Great Plain and 17% are to be found in the Southern Great Plain. This is always to be taken into account when assessing relative shares within clusters. The seventh and especially the eighth cluster display interesting structural disproportionalities (not included in the figure). The share of towns from the two regions of the Great Plain and the Central

Figure 23.2 Share of regions within clusters of unfavourable innovation potential



Chi-squared: 149.2 (p<0.000)

Source: Horváth and Rechnitzer (2004).

Transdanubian region is exceptionally high among settlements with slightly better than average human resources and innovation characteristics (seventh cluster). In the town-group with average indicators (eighth cluster), two-thirds of towns are concentrated in two other regions: 35% of towns of this cluster are located in Central Hungary and one-fourth in Southern Transdanubia. Seen from this perspective at least, these two regions can count on a number of towns as already having the 'initial momentum' needed for future development. The handicap of the Northern Hungarian and the two Great Plain regions is manifest from this point of view as well. Their relative share in the tenth and eleventh clusters far exceeds their overall share within the urban network. The three most backward regions account for 70% of towns in the tenth cluster and more than 80% of towns in the eleventh cluster (Figure 23.2).

Statistical indicators of the contingency tables (chi-square=149.2; $p < 0.0000$) allow us to conclude that the proportional structure of town sets with similar innovation characteristics, isolated by means of the indicator groups discussed above, reflects regional differences. In the regions of Northern Hungary, Southern Great Plain and Northern Great Plain, a few large towns with exceptional 'performance' are joined by a large group of relatively backward settlements. This structural feature points to a high degree of territorial concentration. By contrast, the distribution of settlements 'based on the similarity of characteristics' tends to be more even in the other four regions. There is a much higher density of towns with average or moderately developed innovation potential. Consequently, the greatest problem in Northern and Eastern regions of the country is posed by the fact that there are only very few towns with real prospects of recovery (Figure 23.3 and 23.4).

Finally, we compared the distribution of development clusters in terms of the 'age' of towns as well (Table 23.2). In forming the five 'age groups', we took the year of the conferral of town status as our basis of comparison. One-fifth of Hungarian towns acquired this status before 1945. These 48 towns can be seen as representing urban territories that look back on a longer history of organic development. The two decades following the Second World War saw the formation of a group of socialist industrial towns in Hungary (15 towns, 6% share). The first significant period in which towns began to proliferate started from the 1960s and lasted until the mid 1980s. In accordance with the settlement development plan (1971), 44 new towns were added to the already existing network (18%). Approximately 60% of current members were given their urban status as a result of a politically motivated but wholly improvised strategy which was aimed at achieving statistical improvements by quantitative means. We wanted to find out whether 'old' towns, which look back on a long-term urbanisation process and have a larger population (the age of towns and their population size are of course directly proportional), enjoy an absolute advantage over their younger counterparts, or whether new dynamic focal points, urban sets or enclaves are beginning to take shape instead.

Figure 23.3 Towns with high innovation potential, 2001

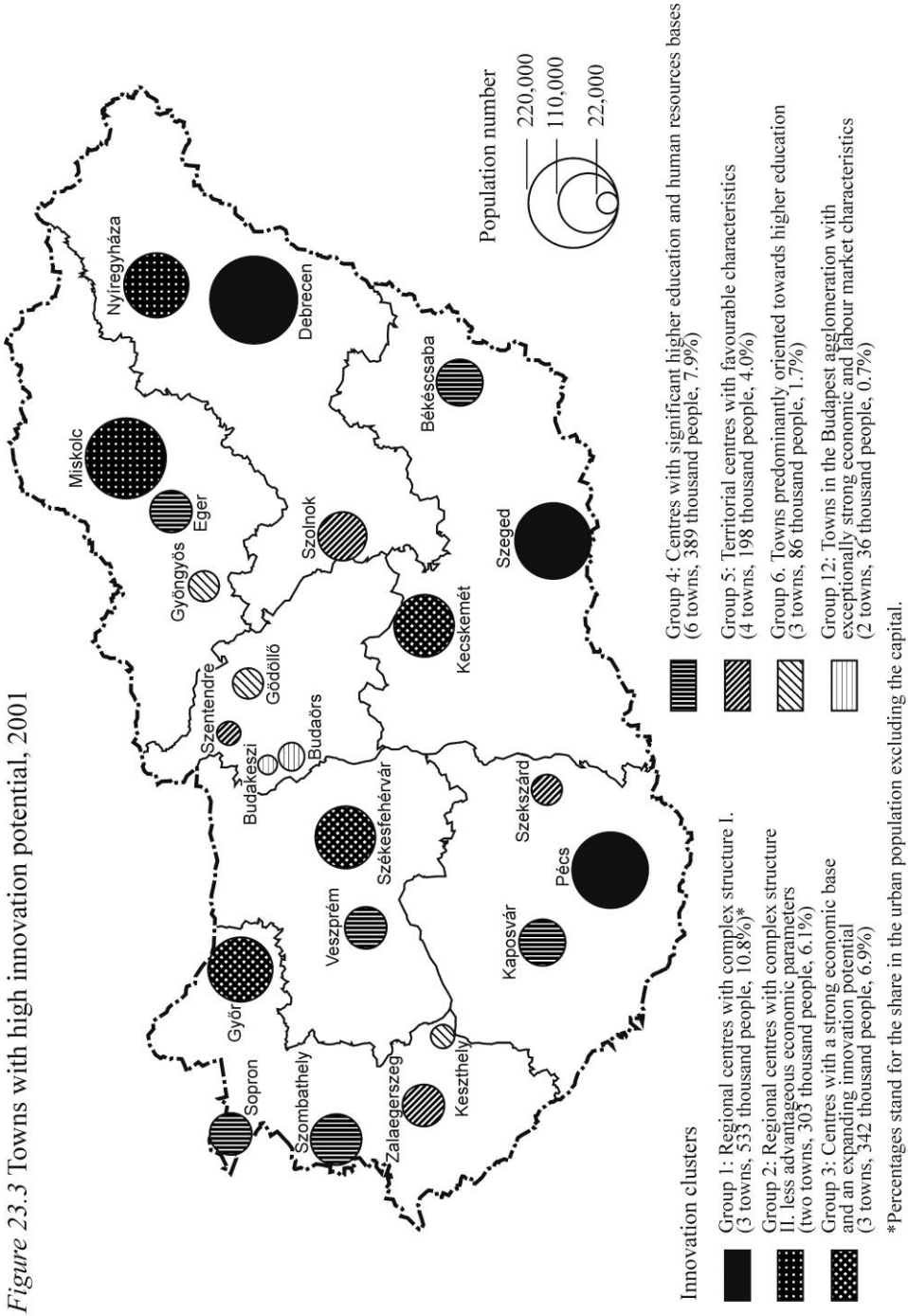


Figure 23.4 Towns with unfavourable innovation potential, 2001

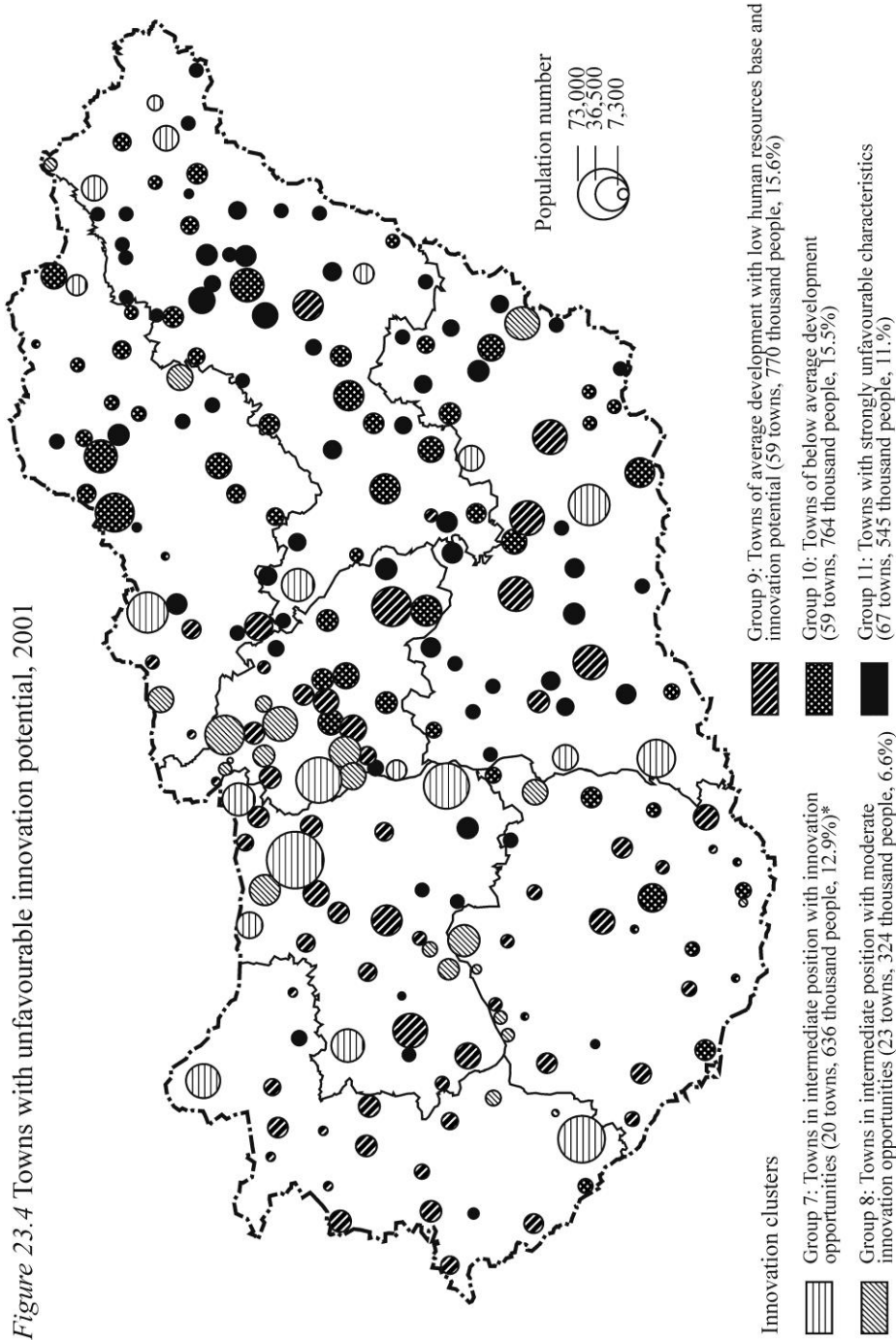


Table 23.2 Correlation between innovation development and the conferral of town status

Clusters		Grouped data for the acquisition of township status				
		Before 1945	1945-65	1966-85	1986-89	1990-...
Developed (1-6)	N	18	1	1		1
	%	85.7	4.8	4.8		4.8
Second division (7-8)	N	13	5	11	5	9
	%	30.2	11.6	25.6	11.6	20.9
Underdeveloped I. (9. Cluster)	N	7	5	21	10	16
	%	11.9	8.5	35.6	16.9	27.1
Underdeveloped II. (10. Cluster)	N	8	4	11	22	14
	%	13.6	6.8	18.6	37.3	23.7
Most underdeveloped (11. Cluster)	N	2			17	48
	%	3.0			25.4	71.6
Total	N	48	15	44	54	88
	%	19.3	6.0	17.7	21.7	35.3

Chi-squared: 146.403; $p < 0.001$; Cramer's V: 0.384.

Source: Horváth and Rechnitzer (2004)

When interpreting these findings, it is worth remembering that the expansion of the urban network has followed a fairly distinct territorial pattern over time. This impacts on the location of clusters at differing levels of development as well. Before 1945, almost half of all towns were located in the Great Plain. Socialist industrialisation led to a rapid increase of towns in Central Transdanubia and Northern Hungary (nine out of fifteen new towns are located in these two regions).

The regions of Western and Southern Transdanubia were given clear priority in the 1970s and 1980s (40%). At the end of the 1980s, however, Eastern regions and the capital's agglomeration became focal points. For example, 20% of new towns created after 1990 are to be found in the region of Central Hungary. In the three years immediately preceding the system change, two out of three new towns were located East of the Danube. This new, equally improvised and politically motivated wave of expansion triggered more significant structural changes in Eastern and central parts of the country. It also explains why the inclusion of new, insufficiently urbanised settlements with relatively small populations increased the number of elements in clusters with unfavourable innovation characteristics.

Correlations observed for population size were clearly reproduced here as well (Table 23.2). A layered structure can be discerned. In most cases, settlements looking back on several decades or even centuries of urban life tend to possess genuine innovation potential. The second-ranked group is dominated by socialist industrial towns that were the main beneficiaries of the 1970s and 1980s expansion

wave. The internal composition of the three underdeveloped groups, which account for two-thirds of all towns, is also shaped by temporal factors. Settlements that have only acquired town status in the course of the last two decades are represented in large numbers among the most backward towns. Figures for settlements with urban status not older than 15 years are perhaps the most dramatic: 72% of these towns are included in the group with the most negative economic, labour market, social, human resources and innovation characteristics. In sum, a rapidly expanding urban network has been undergoing radical polarisation in terms of the dimensions studied.

Innovation Potential in a Divided Network Structure: Concluding Remarks

This survey confirmed the findings reached by earlier studies. The Hungarian urban network remains strongly divided at the turn of the millennium. Moreover, transitional years saw both a qualitative and quantitative increase in disparities rather than diminishing differences. Essentially, the presence of actors and institutions representing innovation potential can be observed in not more than forty to fifty units of the urban network. Needless to say, the urban hierarchy is still clearly perceptible. Large towns functioning as regional centres as well as secondary centres have preserved and even increased their leading role even in this system. By contrast, at the end of the transitional period the overwhelming majority of small and medium-sized towns continues to be unable to create an economic and social environment in which actors and institutions representing innovation could emerge, let alone properly operate. This is a very serious and lasting deficiency and omission of political, economic and social policies aimed at recovery and development in Hungary during the last two and a half decades.

As to the current state of affairs, we can conclude that the network of 251 towns divides into two groups of roughly equal size in terms of economic, social and labour market structures. The share of towns with lower-than-average and higher-than-average parameters is approximately identical. By contrast, the two compound indexes of the sectoral share of innovation environment, human resources, higher education and research – all of which impact significantly on innovation potential – and that of actual results are found to be distributed much more evenly. This indicates that most towns lag considerably behind the ‘innovation elite’. In human resources and innovation terms, three out of four towns are below the urban average. Perhaps the most serious problem has to do with the fact that for three-quarters of the entire urban network no advantageous characteristics can be registered in any component of the innovation configuration. In other words, 180 towns, the bulk of the urban network, still lack the requisite economic, social, educational and research characteristics and related functions which could lay the groundwork for local innovation processes. At present, only a very small group of towns can boast genuinely significant innovation characteristics. According to the factors compiled and applied in this survey, only 8% of the urban network can be described as possessing satisfactory innovation potential.

By also reviewing the demographic, spatial and temporal characteristics of innovation potential, we obtained a more complex and fine-tuned interpretation of clusters. Population size yields a reasonably unambiguous demarcation line within the Hungarian urban network. Most Hungarian towns with populations of less than 40 thousand people lack the background conditions that could create an adequate innovation environment for economic and social actors of their area. In connection with the territorial distribution of members of fixed development groups we succeeded in establishing the distribution of towns of individual regions as a function of their cluster ranking. Relative shares of towns of individual regions within clusters were found to point to important features as well. Regional differences were demonstrated in the proportional structure of respective town sets with similar innovation characteristics as identified through the indicator groups used in this study. In the regions of Northern Hungary, the Northern Great Plain and the Southern Great Plain a handful of large towns with exceptional 'performance' are joined by a large group of backward and relatively underdeveloped urban settlements. These structural features indicate a high degree of territorial concentration. By contrast, the distribution of settlement groups of similar characteristics tends to be more even in the other four regions. There is a much higher density of towns with average or moderately developed innovation potential. The greatest problem in Northern and Eastern regions of the country is a disproportionate degree of backwardness in combination with the fact that only very few towns can look forward to recovery there. We are faced with a similar layered structure when considering the 'age' of towns. In most cases, settlements with several decades or even centuries of urban life possess genuine innovation potential, while the rapid expansion of the urban network has led to radical polarisation.

These findings provide an appropriate framework for subsequent inquiries. Determining innovation trends, vertical rankings and precise evaluations (of the performance of individual settlements) is indispensable for an adequate analysis of economic and social processes of system change. However, these trends, rankings and evaluations can only be established with the required degree of certainty once it becomes possible, on the basis of available information, to clearly identify local manifestations of these processes in the context of economic, educational, administrative and social developments.

NOTES

¹ Hierarchical and K-Means cluster methods were used to classify the Hungarian urban network. The hierarchical clustering method is useful for smaller files (and can be applied for the grouping of the most developed Hungarian towns which form a markedly distinct group). Optimal cluster structure can be obtained by combining single-member clusters the number of which should be identical with the element number of the database. In the case of the K-Means method, we are interested in the internal structure of several observation units. The number of clusters is established in accordance with preliminary assumptions (Székelyi and Barna 2002). By summarizing the findings of the two different procedures, we can delineate the various development groups in a unified classification. This

classification is capable of differentiating among the overwhelming majority of elements and arranges them into sufficiently homogenous groups.

² The twelfth group includes two settlements in the Budapest agglomeration which occupy a special status in the present framework.

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Global Economy and Local Impacts in Medium-Size and Large Cities in Hungary

Balázs Molnár and Ákos Szépvölgyi

Introduction: A Theoretical Background to the Study

Regional research in Hungary has been paying increasingly close attention to studying the spatial correlations of global economy for some time now. The underlying reason for this is that transition, which began in the late 1980s, has created a completely new status quo in both economic and social development, in which the spread of the impacts of globalisation has also been highly idiosyncratic.

In respect of the above, this study strives to answer the question of whether or not new economic mechanisms, global economic impacts in particular, which gained in importance during the transition, induce changes in the competitiveness of medium-size and large cities in Hungary¹ or a shift in previous uneven development. In other words, we seek to provide an answer as to how the emergence of knowledge-intensive sectors and businesses with foreign stakeholders influences former uneven regional development and local impacts, and how differences in local impacts and the characteristics of differences can be described.

The rationale for the study is that the impacts of globalisation became key processes, which led to structural transformation in East Central Europe after the regime change, and were the main engine of regional, settlement-level and socio-economic change. Although, essentially, globalisation is not an economic process (Giddens 1999; Held *et al* 1999), most researchers look at it from this perspective, associating it with the dominance of mainly financial, information and communication (ICT) systems. Those who place global economy, i.e. an economy without frontiers, in the focus of their discussions mean by it the historical process of world economy's becoming one single organic system (Reich 1991; Castells 1993; Ohmae 1995).

What is unique about the status quo in East Central Europe is the socio-economic impacts that post-socialist transformation, a scientific and technological revolution and the challenges of globalisation jointly exert on the countries in the region (Kolodko 2002). As regards the challenges of globalisation, countries were, in

principle, free to decide on the extent to which they wanted to become exposed to the influences of capital markets. They had two alternatives: one was vigorous development promising the hope of faster convergence, the other was a more democratic and more equal society with a healthier natural environment at higher costs (Stiglitz 2002). Most post-socialist countries in East Central Europe opted for robust convergence with and adjustment to globalisation, the depth of which was, however, determined in the course of political decision-making by special socio-economic, regional and settlement characteristics, i.e. factors of localisation.

Globalisation processes also have a strong impact on socio-economic, regional and settlement-level development processes in Hungary. Owing to the fact that the country used to be a closed society, such development processes were less common before the 1990s. These influences, combined with transition processes, accord high priority to certain regions, which – based on socio-economic indicators – are increasingly different from other regions, and to their central settlements with extensive neighbouring areas. An increasingly high number of urbanists, regionalists, economists and sociologists refer to these contiguous areas and high-profile cities as ‘successful’. The word ‘successful’ should, of course, be interpreted in the context of current regional and settlement development. However, there are other equally contiguous areas as well as certain cities and their environs which may well have been deemed as developed earlier, but which the effect mechanisms of global economy that accord great prestige to certain regions, settlements and settlement environs leave unaffected, and which may, as a result, even slump into depression for periods of varying lengths (Horváth and Rechnitzer 2004).

These regional and settlement-level processes are related to international corporations facilitating transnationalisation, their capital investment and emergence in a given settlement (Pieterse 1995), the spread of information and communication technologies and systems as well as various socio-economic networks based on the utilisation of such technologies and systems (Castells 1989). The globalisation of the Hungarian economy became increasingly important during the transition period, prior to which foreign direct investment had been of little importance and the country had become heavily indebted in international money markets. Today it is among the most globalised² countries in the world, the difference between Hungary and the next most globalised CEECs being two- or threefold; however, it lags considerably behind those at the top (Singapore, the Netherlands and Sweden).

A further proof of an expanding global economy is that foreign direct investment in Hungary amounted to approximately USD 43 billion between 1990 and 2003 (UNCTAD 2004). Of the sectors, manufacturing received the largest share: approximately half of the total amount of FDI. The telecommunications, energy, trade and financial services sectors had a 15%, 13%, 6% and 6%-share respectively; the remaining sectors received 10%. Within manufacturing, FDI’s main targets were the automotive sector, the electronics and IT manufacturing and tobacco manufacturing (over 80% of the capacity in the automotive sector and tobacco manufacturing is foreign-owned).

However, we will only be able to evaluate the impact, depth and results of globalisation later, when an analysis of actual data and circumstances has been

performed. At the outset, Hungary was highly exposed to the risk of dualisation. Today, the globalisation of Hungarian companies is under way. In effect, currently, it is at its peak in East Central Europe, and is gathering further momentum by each non-resident acquisition (UNCTAD 2003, 2004). The risk of duality evolving in the Hungarian economy is still very much real despite the fact that, with global corporate networks transformed, significant changes are occurring in SMEs. In this respect, Hungary is trailing other countries, as its internationally competitive SME sector has not emerged as the result of grassroot, i.e. organic development. Rather, it needed the network of transnational and multinational companies with subsidiaries in Hungary to be able to solidify its position and further develop. Government and regional subsidy policies and especially Hungary's accession to the EU in 2004 encourage an increasingly large number of SMEs to choose Hungary as their destination. The capital injected into the Hungarian economy by non-resident SMEs over the past one year has amounted to approximately half of the capital invested by large corporations. The fixed investment activity of the latter is now confined mostly to reinvesting their profit. Thus, duality and divide no longer lie between trans- and multinational companies and their Hungarian counterparts, or between them and SMEs, but rather, between companies/chains present in international markets and those satisfying local needs.

It should, however, be emphasised that the factors that used to attract international companies and, among them, mainly companies in knowledge-intensive sectors, had lost most or all of their appeal by the early 2000s. As a result, it is now the new realities of the Hungarian economy, i.e. a competitive edge that can always offer attractive dimensions in the context of an increasingly fierce global competition, the results of bargaining processes in which there is a continuous shift in bargaining power, integration possibilities and an innovation-friendly climate, human basis, infrastructural network and legal and institutional environment that should be able to protect existing investments and encourage new ones; furthermore, it is their spectacular development that could affect the strategies of international companies favourably (Barta *et al* 2003). It should also be taken into account that localities as integral parts of globalisation have gained in importance, which is clearly proven by the fact that it is cities capable of fitting in with global settlement networks and regions, regional economic networks and clusters, mostly in the environs of such cities, rather than the Hungarian state that are now the partners of international companies. What adds a twist to the story is that in Hungary this process took place in a period when localities acted against not only globalisation, but also centralisation. It was in this period that cities were able to emerge as independent localities for the first time, which – as a regional idiosyncrasy – played a key role in their socio-economic development, and also helped them face the challenges of transition and global economy.

Methods

Literature cites a wide variety of methods developed to measure the above processes (Porter 1990; Lengyel 2000; Lengyel and Rechnitzer 2000; Cooke *et al* 2001). Each

uses some dominant factor or groups of factors in order to define regional development. Relying on the results of these methods, this study starts from the premise that the traditional socio-economic aspects of analyses, which are crucial to innovation, can be used to assess the degree of urban development only if these aspects are supplemented with indicators showing the emergence of multinational companies and the spread of knowledge-intensive sectors.

Supplementing the factors which focus on complex economic impacts and which were used by Cooke et al. (2001) in line with local characteristics, this study uses seven indicators (business density, the proportion of enterprises in knowledge-intensive sectors, the proportion of multinational companies, economic activity, business tax, personal income tax and unemployment) to assess the degree of urban development in medium-size and large cities in Hungary. Criteria for the selection of these seven indicators included their suitability for measuring both dependence on global economy and local characteristics.

Of the indicators selected, the components of knowledge-intensive sectors were defined on the basis of the nomenclature of the Central Statistical Office (CSO) supplemented with OECD's designation for specialist sectors. The components of the indicator include high-technology industry and knowledge-intensive services. As this classification corresponds to EU's NACE³ Rev.1.1 classification, it renders the indicator fully comparable with similar indicators of other European countries. Identifying the number of multi-national businesses posed a problem, however, since no data on it were available in official statistical data publications. Thus, we defined the indicator on the basis of businesses employing over 50 persons and with annual sales revenues of at least EUR 4 million. The rationale for this is that experience reveals that the share of such businesses best represents the multinational sphere.

Factors of Economic Development

Taking into account regional differences in the indicators employed, the following section of this paper first evaluates the trends revealed by the individual indicators, and then goes on to summarise the most important findings of the analysis of medium-size and large cities performed on the basis of the consolidated index of economic development. In line with the foregoing, some of the indicators selected (e.g. knowledge-intensive sectors and medium-size and large companies) measure trends in economic globalisation, others (e.g. business density, economic activity, unemployment and household income) reveal the characteristics of local trends. Still others (e.g. business tax) are strongly influenced by global and local economies. It should, however, be emphasised that none of the indicators depends exclusively on global or local factors.

Regional Characteristics of Business Density

According to CSO data, there were approximately 425,000 economic entities in Hungary in 2001. Over two-thirds operate in medium-size or large cities with a

population of over 30,000, where a mere two-fifths of the population are concentrated. (Budapest, where 40% of all the businesses are concentrated, is of special importance.) Although the national average is 42 businesses per 1,000 residents, their concentration in medium-size and large cities is nearly 1.5 times higher. It seems that, within this urban category, population size is a more unambiguous indicator of how many business partnerships are in a city (correlation between the size of the population and the number of economic entities is 0.99).

High business density results in higher rates of economic activity and higher household and settlement income, with the indicator affecting unemployment favourably. This is corroborated by the existence of strong correlations between business density and the activity rate of households ($a = 0.51$), business density and income tax per capita ($a = 0.82$), business density and business tax ($a = 0.48$) as well as business density and unemployment rate ($a = -0.6$).

Medium-size and Large Businesses

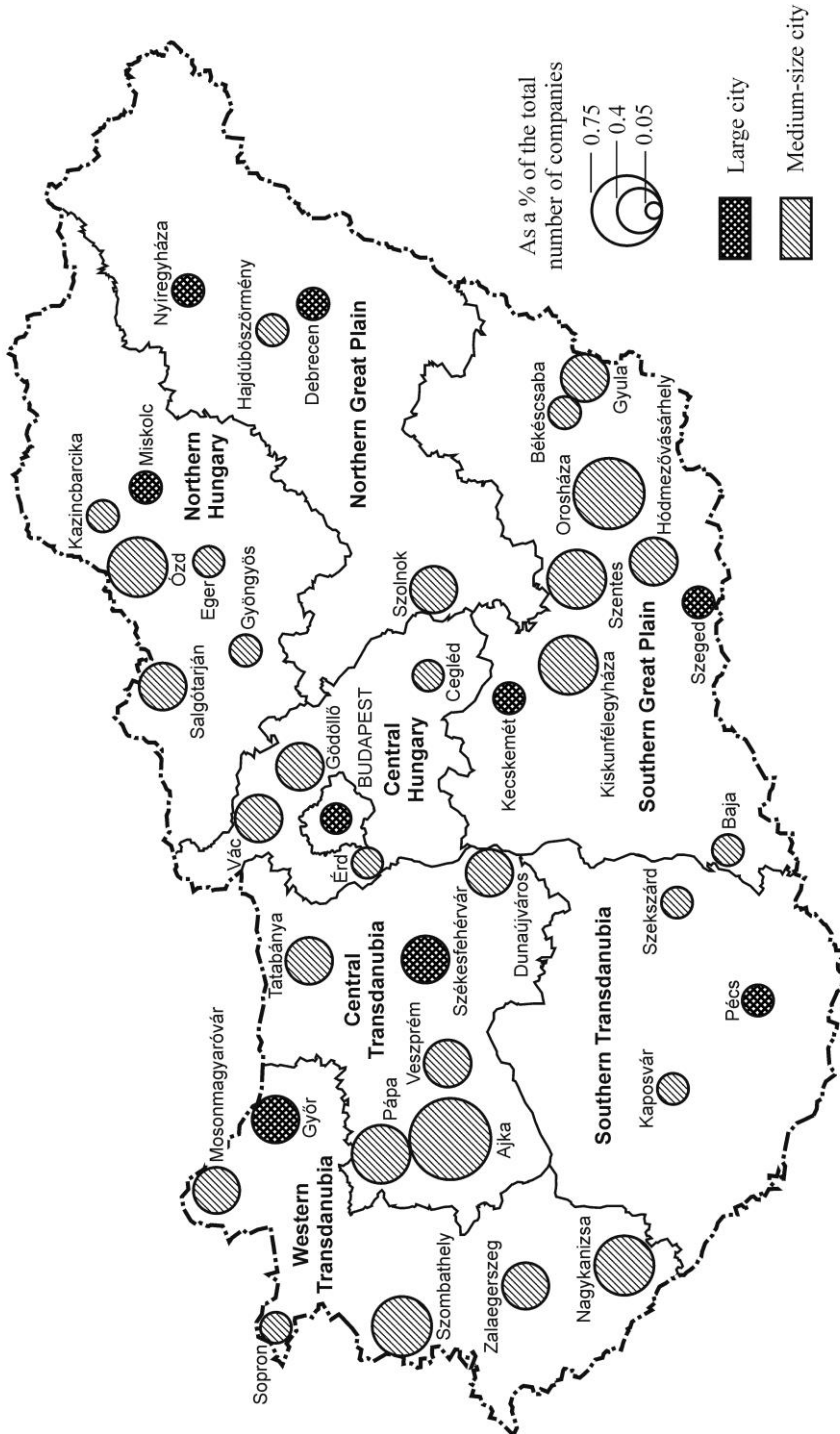
In identifying the local impacts of global economy, we strove to exclude major economic entities with foreign stakeholders on an urban level. However, because of the above shortcomings of statistical data collection, we only managed to study medium-size and large businesses, irrespective of their ownership structure, in 30 medium-size and 9 large cities in Hungary. Given that there is detailed information available on them, an estimate can be provided for the emergence and economic participation of foreign capital; furthermore, its impacts can also be studied indirectly.

According to these criteria, the number of businesses employing over 50 persons and posting annual sales revenues of over EUR 4 million was roughly identical in Budapest (844) and medium-size and large cities (828) in 2004. Our estimate is that over one-third of them have foreign stakeholders.

Based on this indicator, the metropolitan concentration of major Hungarian businesses, which is 1.5 higher than the appeal that medium-size and large rural cities represent, is an incontrovertible fact. Concentration is even more conspicuous in the case of companies employing at least 50 persons and posting considerable annual sales revenues (> EUR 1.6 billion). Their number is 264 in medium-size and large country cities and 366 in Budapest. (Metropolitan concentration per 10,000 residents is over twice the average, i.e. 2.1 and 1.0 respectively.)

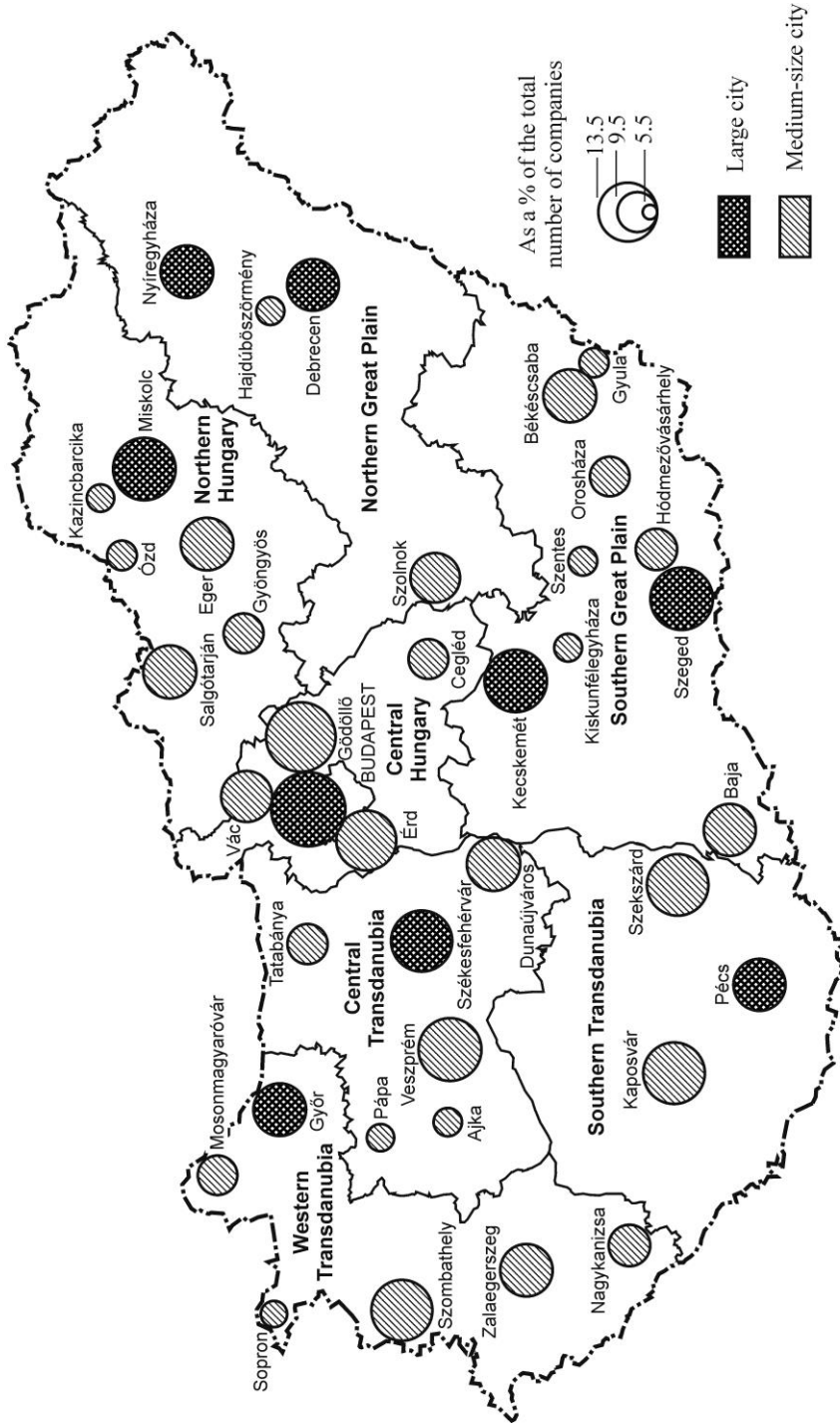
Besides the capital city, cities with traditional regional roles (e.g. Debrecen, Győr, Miskolc) are also in a favourable situation, irrespective of their geographical location in the country. The picture is somewhat different in the case of large companies earning substantial sales revenues and employing at least 250 persons. Cities that used to have significant manufacturing capacity before the regime change, and were able to implement restructuring expeditiously after the changeover (e.g. Gödöllő and Ajka) (Figure 24.1), are in an advantageous position.

Figure 24.1 Weight of medium-size and large companies in the cities under review as a % of the total number of companies, 2001



Source: The authors' own figure based on KSH's company database

Figure 24.2 Weight of knowledge-intensive sectors in the cities under review as a % of the total number of companies, 2001



Source: The authors' own figure based on KSH's company database

The distribution of these business partnerships also unequivocally correlates with population size. (The correlation between the number of businesses and urban population size stands at 0.99.) At places where their presence is strong, the income position of both the cities and the population affected is more favourable (with correlation standing at 0.24 and 0.47 respectively). Unfavourable indicators evidence that the economy has become heavily segmented in cities in Northern Hungary (e.g. Miskolc, Ózd and Kazincbarcika), which used to have a dominantly large industrial basis before the regime change, and which have been coping with a serious economic crisis since the late 1980s.

Characteristics of Knowledge-intensive Sectors

Based on the above approaches, this indicator of economic development is of key importance. Based on available statistical data, only the number of businesses in this category can be established; no comprehensive official collection of other data on them is currently under way. An average 5.9% of all businesses operate in the knowledge-intensive sectors in Hungary (0.5% operate in high technology industries and 5.4% provide knowledge-intensive services).

In respect of the indicator under review, there are marked differences in development as regards medium-size and large cities; however, the regional determination of the sector under review is not material. Budapest has a high concentration of knowledge-intensive sectors; locations in its vicinity also attract them (Figure 24.2).

It is equally important that the proportion of businesses in these sectors is not significant in cities in Western Hungary, which owe their current favourable position to a significant inflow of capital after the regime change. However, this is only true in terms of the number of these businesses; in terms of output and export potential, the economic weight of businesses in high technology industry is significantly higher in these cities. Ministry of Economy and Transport data reveal that these businesses (in computer, equipment and vehicle manufacturing) account for approximately 60% of overall output and exports.

Certain cities in Eastern Hungary (e.g. Szeged) with a much less significant economic role also display above-average values. We assume that this can be attributed to the fact that specialised knowledge available in large cities with a strong higher education basis attracts high-tech businesses. Below-average values are common mostly in medium-size cities. This clearly mirrors the fact that the concentration of knowledge-intensive sectors is high in large cities, and that the weight of traditional economic sectors, i.e. historical determination, is still considerable in cities which used to be hubs of heavy industry prior to the regime change.

Differences in Economic Activity

Under our approach, the presence of global economy also affects economic activity in the cities under review. However, our assumption is somewhat challenged by the fact that regional differences in economic activity are significantly lower than the

differences measured by the indicators that directly signal the presence of global economy. The likely reason for this is that economic activity as well as unemployment and staffing levels, which reflect such activity, are less dependent on the presence of global economy. This means that medium-size or large cities with a traditional economic structure are as able to reach higher-than-average activity rates as those where the presence of global economy is stronger than average.

A further important trend is that the correlation between economic activity and settlement size is not strong either, as attested by the fact that there are an equal number of medium-size and large cities among those with higher-than-average values. Of the cities under review, only Ózd, which developed rapidly as a result of industrialisation in the socialist era, then underwent a crisis because of the phase-out of heavy industry capacity after the regime change, displays extremely low economic activity. Such low economic activity can be attributed to an over 20% unemployment rate and a high rate of inactive population.

Differences in Business Tax

We measured the economic performance of the cities under review on the basis of data for revenues from business tax introduced in the mid-1990s⁴. This indicator also reveals marked differences between the individual medium-size and large cities in Hungary. Furthermore, there are also significant regional differences. All the cities with higher-than-average values are in Transdanubia and in Budapest and its environs. The value of the indicator clearly reflects the economic capabilities of the cities under review, i.e. it depends heavily on the performance of knowledge-intensive sectors and medium-size and large companies, which, in turn, points to determination by the global economy.

It is often the case that business tax revenues in several medium-size cities, despite a stronger-than-average presence of medium-size and large companies in them, are below average. Possible reasons for this are that the ability to produce added value of the medium-size and large companies here is low, i.e. they work in sectors whose performance is moderate, and that tax rates differ from one city to the next.

Characteristics of Unemployment

According to 2001 data, the unemployment rate is more favourable in cities with a population of at least 30,000 (5.2%) than the national average (5.7%). Unemployment rate is lowest in cities with the highest business density near the Western border of Hungary or the capital city, and the highest in cities in East Hungary, which are undergoing a structural crisis and where further restructuring in mining, heavy industry, agriculture and manufacturing is needed.

Unemployment also exerts significant impacts locally, since it affects both personal income and the revenues of cities, which is best reflected in the negative correlation between unemployment rate, personal income tax per capita and business tax ($a = -0.6$ and $a = -0.5$ respectively).

Household Income

There are also substantial differences between the individual medium-size and large cities in Hungary in terms of personal income tax per capita employed to assess household income. Income does not depend on settlement size (except in the capital city); geographical location, especially the proximity of the Western border, is a much more important determinant, however.

Furthermore, there is no strong correlation between household income and the presence of medium-size and large companies, in medium-size cities, in particular. That is, the presence of large companies does not lead to high household income. By contrast, there is an unambiguous correlation between household income and the number of businesses in knowledge-intensive sectors, i.e. it is safe to assume that income in these sectors is much higher than average.

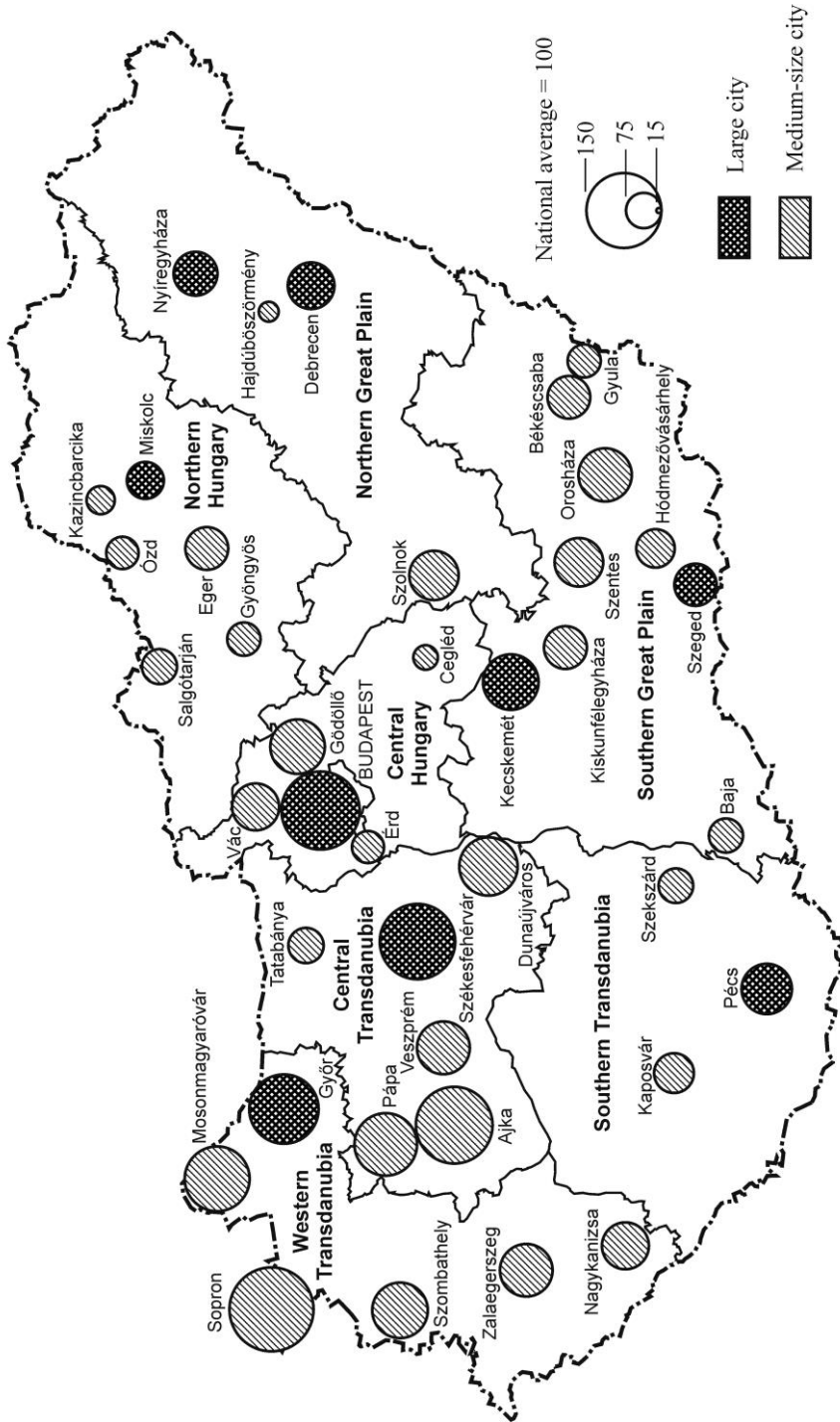
Complex Development Index of Cities

In comprehensively evaluating the level of development of the cities under review, based on the above seven indicators, we calculated an economic development index, which gauges the level of development of medium-size and large cities compared to the national average. In calculating the index, we assigned identical weighting to each indicator (their proportion within the index being 14.285%); the sum total of the weighted values of the indicators constitutes the development index of the cities compared to the national average (Figure 24.3). This method provides for the possibility that the level of development of the cities under review can be compared and that the role and the strength of the impact of the individual indicators can be evaluated.

Based on the complex indicator, which we employed to gauge urban development and which is determined by the special localisation processes of global economy and transition, there are marked differences in the level of development of medium-size and large cities in Hungary. There is no correlation between index values and settlement size, i.e. a higher level of development of large cities cannot be unequivocally established on the basis of the indicators employed. They, however, correlate with the geographical location of the cities. Only in West and Central Transdanubia and Central Hungary do medium-size and large cities display values that are substantially higher than average.

We also studied the way each indicator included in the index affects final values⁵. Our findings suggest that the level of development is closely related to several factors, including unemployment (0.69), business tax levels, which are strongly determined by the presence of multi-national companies and knowledge-intensive sectors and, hence, affected indirectly by global economy (0.61) and the proportion of medium-size and large companies (0.56). By contrast, the presence of knowledge-intensive sectors, which we deemed as a direct indicator of global economy, exerts less direct influence on index values (correlation: 0.11).

Figure 24.3 Values of the development index in the cities under review, 2001



Source: The authors' own calculation.

In addition to general conclusions, the factors that played an important role in the case of the individual groups of cities with values significantly different from what had been expected should also be highlighted. Regarding cities with markedly high index values, medium-size and large companies are over-represented (i.e. the role of multinational companies is significant) in medium-size cities with traditional industrial capacity or significant manufacturing capacity, which succeeded in implementing rapid restructuring after the regime change. The role of a low rate of unemployment is important in medium-size cities near Hungary's Western borders.

Low index values are attributable to high unemployment in medium-size cities with a traditionally unfavourable structure of industry, to high unemployment and low business tax levels in cities which went into depression after the phase-out of heavy industry, irrespective of their size or geographical location, and to the under-representation of medium-size and large companies in large cities in Eastern Hungary.

Different Impacts of Global Economy in Three Medium-size and Large Cities

The way the local impacts of global economy are exerted varies from one city and its environs to the next. So does their contribution to regional and settlement development in terms of outcome, speed and intensity. Development is influenced by the fact that in East Central Europe socio-economic development is more closely related to political stability and the ability of economic regimes to adjust flexibly than to the direct impacts of globalisation (Inotai 2001). Nevertheless, because of the transient nature of economic downturn, a repeat rise in the prestige of capital investment incentives and the impact of Hungary's EU membership as of May 2004, inflows of foreign capital are expected to increase again. An enhanced impact of global economy is also likely to be felt.

This may translate into a rise in the number of suppliers and into the establishment of R&D facilities, centres of business service providers, integrated bases of manufacturers and service providers as well as sub-divisions of regional management and logistics in Hungary. Although there are an increasingly high number of examples, this is still confined mostly to large urban regions, where the necessary infrastructure of human resources, training and education, and R&D is available (Barta *et al* 2003). Based on human resources of varying quantity and quality, the level of development and the global economic embeddedness of cities vary markedly. This is what we intend to highlight through the example of Székesfehérvár, Tatabánya and Miskolc, three cities, each of which is, under our classification, in a different position.

Based on mechanisms linked to globalisation, the path of development in *Székesfehérvár*⁶ largely resulted in quantitative growth; only in part did it lead to qualitative growth after the regime change. Successfully seizing economic development opportunities, relying on investment incentives and utilising its traditionally well-skilled labour force, favourable regional location and logistics relations, the city has become the largest target area for foreign investors in Hungary after

Budapest and its agglomeration, the Western border region and Győr and its environs. The amount of invested capital was EUR 2.2 billion, its relative size nearly seven times the national average. Owing in part to this, the unemployment rate fell from approximately 30% in 1993 to 4%-5% in the late 1990s. Since then it has remained broadly flat at that level. Further resultant benefits include infrastructural development, major expansion in higher education capacity and an increase in available settlement development funds.

In terms of quality development indicators, however, the welfare of wider strata of the population has not materialised. Only limited development has occurred in environment protection and social and cultural life on a regional and urban level. Improvement in the related infrastructural and institutional framework has also been limited. The absence of quality changes is further evidenced by the fact that higher education, though offering an increasingly wide array of educational opportunities, has been unable to adjust to demand for labour for years, i.e. there is an excess number of, mainly economics, majors. Obviously, there are favourable quality changes, including a rise in the proportion of working-age persons and changes in the sectoral distribution of the economic activities of businesses in operation (Szirmai *et al* 2003b).

Prior extensive economic growth had entered a phase of consolidation by the late 1990s. Waived temporarily in the wake of an earlier economic development strategy, sources of revenues, mainly taxes paid by global economic actors, have again been included in the town's budget since the early 2000s, when some of the incentives for capital investment and employers as well as other forms of economic incentives that had been provided earlier ceased to be granted. Such revenues enable the city to step up protracted capital investment, construction as well as infrastructural and social projects and to find other forms of funding.

With an interim fluctuation in the number of international companies in the private sector, a switch to innovation-oriented economic development has begun. Transition into a sustainable urban and regional policy that accords a higher priority to quality, social needs and the spatial and virtual networks of co-operation is increasingly discernible.

*Tatabánya*⁷ and its environs are a further outstanding example of the implementation and success of an economic development strategy based on attracting global economic actors. In the period between the late 1980s and the mid-1990s the city and its environs underwent deep recession brought about by a crisis that had arisen from socio-economic transformation. With mining, metallurgy and other similarly energy-intensive sectors (e.g. cement and building material manufacturing) phased out, the former industrial structure of the city rapidly collapsed, with a resultant loss of nearly 20,000 jobs in the region. As a result, the city had had no appeal for major foreign investors before the mid-1990s. By contrast, smaller companies employing 30 to 150 persons were already present (Szirmai *et al* 2002).

The economy rebounded and was placed on several pillars as a result of massive central preparation and development that involved the municipality. However, for various, mainly government-related and local, reasons, results materialised only with

a time lag, relative to Székesfehérvár. This time lag was attributable, in part, to the municipality's temporary liquidity constraints in the wake of a sudden increase in the drain-away of local revenues by the central government. Rationalisation entailed heavy borrowing and bond issuances. In the early 1990s, the majority of the funds thus raised financed the completion of infrastructural development that had already been under way. Some, however, were used to finance municipality operation, which caused serious delays in economic development initiated by the city.

Development in Tatabánya was further hampered by the fact that heavy industry was dominant in the local economy. The most important objective of restructuring was the establishment of businesses that were able to bring about a change in it. Towards this end, areas suitable for greenfield capital investment projects began to be zoned off from 1996. Simultaneously, seeming indifference for the city evaporated, with a resultant inflow of direct capital of approximately EUR 0.5 million. The manufacture of vehicle components, electronics goods and an assortment of equipment, used mainly in machinery, packaging material manufacturing, chemical industry and environment protection, as well as logistics have become the main profiles of the local economy, indicating that its structural transformation has been successfully completed.

Finally, the path of development and the adjustment of global economy in *Miskolc*⁸ also show distinctive characteristics. Aimed at reducing the weight of Budapest as an industrial centre, its several-decade-long development based on local natural resources had turned Miskolc into an important industrial and regional hub by the end of the 1960s. Similarly to the Tatabánya region, the structure of industry was lopsided. Over 90% of capital investment was directed toward heavy industry. Although large-scale industry was relatively developed, its historically high concentration led to entrenched structural problems. As a rule, manufactured industrial goods represented a low degree of processing and were rather exposed to business cycles. The efficiency of production was not satisfactory either.

The crisis in industrial manufacturing after the regime change hit the North Hungarian region harder, and resulted in more dramatic changes in employment. Industrial employment in 2000 was still only two-thirds of what it had been in 1992. Employment crisis deepened not only in Miskolc, which is the regional centre, but also in the settlements in the agglomeration, due to a decline in labour attraction.

The economic position of Miskolc deteriorated sharply after the regime change, with metallurgy and machinery in the Sajó Valley going through a crisis. Only the chemical industry was able to maintain its position. There were massive layoffs affecting thousands in steel mills, machinery, mining and wire manufacturing, all struggling through the 1990s. Some (steel mills and mining) had gone through a long-drawn-out process before they were either reorganised or closed down in the mid-2000s. Others (e.g. the glassworks and several smaller state-owned companies) had already been closed down. Because of a severe economic downturn, restructuring has suffered delays and is still an on-going process. This is confirmed by the fact that industrial output was still declining in 1998 and 1999. It has been growing, albeit sputtering, since 2000 (Szirmai *et al* 2003a).

The number of businesses with foreign stakeholders per 1,000 persons in the Miskolc region is hardly half of that in Székesfehérvár. Unfavourable communications infrastructure further compounds the situation, as access by road, despite the motorway section opened in 2003, remains the source of serious problems, due to the poor traffic turnover capacity of access roads. Although few companies in the region were able to attract foreign capital, a favourable development was that the average size of capital of the companies with foreign stakeholders was twice the national average, while foreign participation was 1.5 times the national average already at an early stage of FDI inflows. This suggests that large-scale investments were made in a concentrated manner. Nevertheless, central government funds played a more important role in regional transformation here than in Székesfehérvár or Tatabánya.

Although there have been favourable changes in the structure of the economy of Miskolc and its environs since the regime change, resulting in a higher diversity replacing earlier lopsidedness, the results of these changes have hardly been felt thus far, since the region has passed through only the first stage of the transformation process. Despite a sharp fall in unprofitable productive capacity, equipment and jobs, the number of new jobs and businesses that could absorb the labour force released is still low. Overall, both subsidy schemes to boost job creation and active employment policies have proven to be unable to defuse tension in the structure of employment and prevent migration.

Conclusions

In keeping with its objectives presented in the introduction, this paper evaluated the correlation between global economy and local economies as well as differences in development. Taking them into account, it explored how the changes that occurred in the course of transition were currently influencing the level of development and the competitiveness of medium-size and large cities. In light of its objectives, the most important conclusions of this paper can be summed up as follows:

1. The positive and negative impacts of the regional differences which became increasingly marked, and those of the localisation processes which intensified during the transition are exerted in diverse combinations in various cities. Local responses to global challenges are rather heterogeneous in this context. One trend is unmistakable, however, i.e. that development policies tailored to suit local characteristics are taking priority over uniform development principles. This is supported by the fact that, following strong centralisation before the late 1980s, cities were able to present themselves as independent localities for the first time in the era of transition.
2. As regards knowledge-intensive sectors, one of the most important manifestations of the global economy, although there are significant differences between the individual medium-size and large cities in terms of development, the regional determination of the sectors under review is not significant. Their urban concentration is influenced by a number of factors. We assume that this can be attributed to the fact that dedicated knowledge available in large cities

with a traditionally strong higher education basis attracts high-tech companies. Thus, the presence or absence of these sectors does not depend exclusively on economic capabilities.

3. As a rule, before the late 1990s, urban development strategies based on the involvement of foreign capital led to successful development at places where considerable industrial expertise, combined with dedicated knowledge, the necessary settlement and regional infrastructure and a favourable socio-economic climate were available, the spirit of entrepreneurship was strong and access was easy. A combination of these 'givens' guaranteed the arrival of multinational companies, which raised employment, contributed to municipality revenues, the development of local societies and the expansion of local economies. As regards changes in quality indicators, another yardstick of urban successes, it seems that new intense innovation-oriented socio-economic development, which relies more heavily on knowledge-based networks, is a must.
4. Based on the group of indicators that we studied, there are considerable differences between the individual medium-size and large cities in terms of their level of development. It is important to emphasise that the values of the index that this paper used are in no way linked to settlement size, while there is a correlation between them and the geographical location of the cities. In other words, we found that values were significantly higher than average only in medium-size and large cities in Western and Central Transdanubia and Central Hungary.

To sum up, spatiality, historical determination and locality play a key role in the spread of the global economy. In other words, differences in urban development affect transition processes and the success of economic restructuring profoundly. Their strength is clearly reflected in the fact that the impacts of economic trends that either boosted or hindered development prior to the regime change can still be felt in the cities under review. Finally, it should be stressed that the spread of the global economy was influenced primarily by the fact that it occurred against the backdrop of a regime change and in a context of fundamental socio-economic transformation.

NOTES

- ¹ Unlike the international and European classifications of cities, Hungarian technical literature refers to cities with a population of 30,000 to 100,000 as medium-size and those with a population of over 100,000 as large cities.
- ² The conclusion is based on what is called the globalisation index, which has been developed (by analysts at the consultancy subsidiary /A. T. Kearney/ of /EDS/, one of the leading IT service providers) in order to quantify globalisation. The original objective of the research was to study individual countries; however, consolidated indicators can also identify a significant increase in global integration. Data collection covered four-fifths of the global population and over 95% of global output with regard to the following four areas (Foreign Policy 2001): economic integration, financial globalisation, personal contact and technological connectivity.

- ³ NACE Rev.1.1: Statistical classification of economic activities in the European Community. The statutory regulation decreeing it is Commission Regulation (EC) No 29/2002 of 19 December 2001 amending Council Regulation (EEC). Under this classification, knowledge-intensive sectors are as follows: manufacture of office machinery and computers, manufacture of electrical machinery and apparatus, manufacture of electronic components, manufacture of radio, television and communication equipment and apparatus, manufacture of measuring apparatus, manufacturing of industrial process controlling systems, pharmaceuticals, aerospace (manufacture and maintenance), post and telecommunications, computer and related activities, monetary intermediation, other financial intermediation, activities auxiliary to financial intermediation, legal and business services.
- ⁴ The underlying reason for deciding on this indicator is that GDP, the commonest indicator of economic performance, is not available broken down by cities.
- ⁵ Although we could not define performance while measuring direct indicators and thus the results are somewhat biased, in our opinion, they provide for the possibility that trends in development can be followed.
- ⁶ The city with a population of 103,000 became industrialized in the socialist era thanks to an electronics company of international renown (*Videoton*), an aluminium processing company (*Köfém*) and a bus manufacturing company (*Ikarus*) as well as construction, agriculture and food manufacturing, which also attract the population from the neighbouring settlements into the city.
- ⁷ Settlements in the vicinity of Tatabánya – given the economic upturn fuelled by the war economy in World War II and the availability of minerals (e.g. lignite, bauxite, sand and limestone) – underwent rapid development. After 1945 these settlements were amalgamated into a new socialist city with traditional heavy industry sectors, i.e. coal-mining and fossil power, aluminium metallurgy, machinery and building material industry.
- ⁸ Through heavy industry and complex manufacturing capital investment projects, based on late 19th-century traditions, Miskolc was turned into Hungary's second largest city in the socialist era. Its population of 210,000 dropped to 170,000. However, its roles as a large city remained limited.

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Global Urban Development in Budapest and the Role of Architecture

Viktória Szirmai and Gabriella Baráth

Introduction

Intensifying globalisation – the globalisation of architecture especially – has had mixed effects on the development of Hungarian towns, including that of Budapest, during the years of transition following the change of system. The transformation of social and economic environment also altered the conditions for urban planning and architecture. This process raises a number of questions concerning the role of urban architecture and urban planning in the formation of the global city and in mediating the effects of globalisation.

What makes the subject-matter of this study relevant is the fact that urban planning and architecture have assumed historically important functions in promoting global unification. Major international architectural trends and theories of urban construction are inextricably tied up with the territorial expansion of modern globalisation.

Successive stages of global urbanisation have been predicated on modern architecture and new ideas in urban planning and construction (Enyedi 1988). The periods of concentration and deconcentration in modern urbanisation, economic forces behind the urban boom, territorial and population concentration on an unprecedented scale, rapid growth of towns, migration of rural populations and the ensuing process of relative deconcentration, development of suburban and agglomeration areas, de-urbanisation, increasing suburban rings – all these developments required and also prompted large-scale interventions in urban planning as well as in public and private construction.

However, the economic and social logic of urbanisation is not solely responsible for motivating urban construction projects. Several other factors such as governmental initiatives to shape territorial and economic developments and the large-scale housing shortage in the wake of World War II were also important determinants. In addition, one can list other important factors as well, such as growing housing demand generated by rising standards of living and an expanding

middle-class. The impact of different urban theories has also been unmistakable (Musil 1973).

Complex economic, social and cultural developments of global unification, the interactions and growing uniformity of life-styles and consumption habits presuppose specific spatial forms, types of settlements and, to an increasing extent, specific region types too (Inotai 2001; Szirmai *et al* 2003). It is by now a commonplace that centres of globalisation are metropolises and their regions, i.e. global cities and urban regions. Their effects and connections constitute hierarchical spatial networks.

Modern globalisation has no doubt almost completely transformed the fabric of historically developed urban architectural cultures. In globalised spaces, cultural symbols and new architectural concepts are as much in flow as financial capital. The 'fabrics' of global and local cultures are interlaced in complex ways (Tomlinson 1999).

Nowadays, there is more and more discussion about the protection of local urban architectural cultures as well as about the objective of balancing global and local cultures. The growing emphasis on local (not only architectural) perspectives and the need for some sort of paradigm change can be attributed to unfavourable social effects of global unification, the dominance of economic priorities over social interests, difficulties faced by settlements on peripheries of globalised urban networks, territorial and social inequalities. Criticisms concerning the exclusive focus of urban planning on the interests of elites and middle-classes underscore the same point.

At the same time, a number of novel developments and policies can be forecasted to lead to a new situation. Forward-looking changes include the growing currency of the concept of sustainable urban development and an increased emphasis on the safeguarding of valuable components of natural and built environments, the protection and rehabilitation of historical districts of towns and monuments. Pertaining efforts of the European Union, the demands of international and national civil organisations, and innovative ideas proposed by various national governments are also important. In today's Europe, there is at least some reason to hope that the relationship between global and local architecture will become more balanced and that different architectural cultures will be placed on a more equal footing. This prospect is especially important for Hungary in the light of favourable and unfavourable effects of globalisation in the wake of the transition, and also because of foreseeable effects of European Union membership on future developments.

Budapest's Development and Tendencies in Urban Planning

State-socialism and Urban Planning

In the 1950s, the sole authority for territorial governance, planning and development was the central government of state socialist Hungary. Planning and development mechanisms, but also planning decisions taken within the framework of internal negotiation processes of state institutions, were entirely divorced from the concerns

of residents, relevant social groups and those of the general public (Ekler *et al* 1980).

Local governance could not influence planning and was not involved in relevant decision-making processes. In the state socialist system, the central government siphoned off locally-generated resources from each settlement and redistributed them according to its own interests and preferences. Settlements were reduced to total dependence in this system.

At the end of the 1960s, far-reaching changes took place. Owing to the economic reform of the Hungarian model of state socialism, large towns began to assume a more significant economical role. As a result, their political bargaining positions were also strengthened. They could secure larger development funds and to some extent independent planning competencies as well. With the relative decentralisation of administration, large towns and county seats became independent centres of redistribution. Consequently, they became major focal points of development (Enyedi and Szirmai 1992).

Transition: Transformation of Planning

After the system change in 1989, urban planning changed fundamentally. Priority was given to decentralisation. The 1990 Act LXV on Local Governments foresaw local governments as being responsible for planning and development in settlements as well as for their own budget based on locally generated revenues, their respective share of centrally collected taxes and normative subsidies of the central government. Due to setbacks in the development of the market economy, however, the state has continued to play a much too large role in administering territorial development and planning. Already in the early 1990s, centralising tendencies began to resurface constraining the competencies of local governments in planning and development (in 1990, locally collected personal income tax was fully allocated to local budgets; in 1992, the central budget and local governments shared personal income tax revenues equally; in 1993, local governments could retain only 30%, while in 2004, only 10%). State support, i.e. normative subsidies and targeted subsidies, can only partially cover local spending. Further, many kinds of targeted subsidies require the availability of matching resources on the part of local governments. This has hindered the emergence of local planning and development in the form typical of modern market economies.

In Budapest's case, a difficult problem was created by the rigid implementation of the principle 'strong districts – weak capital'. According to the current Act on the Capital, the municipality of Budapest is a federative body that is to serve the 22 district standing on equal footing with them. The resulting fragmentation is chiefly responsible for the failure to work out a unified concept of urban development and the lack of clearly identified development priorities.

New Economic Development Strategies and Planning

Hungarian economic transition followed (barring local peculiarities) two main courses of economic development. In the first case, local institutions, including local

governments, have principally aimed at attracting private capital, primarily from abroad, into the regional and local economy. By contrast, in the second case, local institutions have relied on a variety of direct and indirect central subsidies in order to transform economic structures (Keune 2001).

Strategies of economic planning in the transition period altered the characteristics of planning. Instead of the emergence of independent bodies of urban planning and administration, as had been hoped for, new types of dependencies surfaced in part from economic actors, i.e. transnational companies and investors, the key players of urban planning. Today, urban economies and local governments are to a considerable extent dependent on their presence, their tax contributions and their informal lobbying activities. Industrial parks and other areas allocated to such economic actors together with the requisite infrastructure also play an important role in the development of local economy.

Given a host of existing historical, social, and economic factors, Budapest has become a particularly good example of the economic development strategy geared towards attracting foreign capital. This is illustrated, among others, by the fact that 40% of foreign enterprises settled in Hungary and two-thirds of all investments are concentrated in Budapest (Hastenberg 1998). The transition in Budapest and the economic development strategy applied here has brought success and enabled rapid economic transition. It has promoted social development as well as integration into the global economy and the European urban system (Keune 2001).

Globalisation and the Social Structure of Urban Areas

The combined effects of globalisation and socio-economic transition are also reflected in the course taken by urban development and the transformation of the built environment. Budapest's development has been extraordinarily differentiated. In many respects, this development transformed what had been a historically-defined territorial system and a well-entrenched spatial and social structure.

The territorial system of Budapest is made up of concentric circles. The first belt is constituted by the inner city (*Belváros*), the historical districts, the governmental and business district, and the Castle District. Due to urban expansion in the early 1900s, a second, so-called *intermediary belt* was created. The third main belt is formed by *suburbs*.

Historically speaking, the status of belts followed the centre-periphery model. Moving outwards from the city-centre, the relative position of populations were lower and lower in the social hierarchy. In the early twentieth century, groups with higher income and social status tended to inhabit the inner city areas, while poorer groups with lower social status primarily occupied suburban areas of pre-1950 Budapest, industrial zones and conurbations. (The centre-periphery model was never fully realised, however, as there were always lower status groups living in the inner city. This was partly due to urban planning and architecture, partly due to the low share of higher and middle-classes in Budapest's social composition.)

In the period of state socialism, there were significant divergences from the centre-periphery model. The status of certain parts of the centre declined whereas

that of intermediary areas increased. The social status of the area surrounding the historical city core – which itself retained its high status throughout – declined due to physical deterioration and the migration of the middle-classes. However, new housing estate developments temporarily put an end to the deterioration of the centre.

In the 1960s, highly-qualified, white-collar, elite groups of Budapest's population as well as young families with children began to move from inner areas to new parts of the capital built during the first wave of housing estate development. However, as a consequence of privately-funded housing constructions, which became more widespread in the 1970s, highly-qualified and more affluent social groups began to move out of housing estates and started the construction of houses in green belts on the Buda side.

The transformation of Budapest in the 1990s is characterised by the dynamic development of the inner city and the emergence of a 'city' concentrating business activities. Other changes in the 1990s, not directly initiated by urban planning policies, included the construction of bank and office buildings, the creation of new and the revitalisation of existing economic and commercial centres and their infrastructure, the refurbishment of large hotels and the building of smaller ones, the development of shopping malls, and the profit-oriented development of fashionable shops, new restaurants and cafés (Cséfalvay 1999). The restoration of ecclesiastical institutions, churches and schools, the creation of rehabilitated blocks of flats concentrated in smaller areas, and the creation of smaller residential parks have also contributed to the capital's development. Further, dynamic restructuring took place at the outer edges of Budapest owing to the creation of business areas, trade and service centres, shopping malls, and logistics centres. In neighbouring settlements of (mainly) high prestige, new residential areas and residential parks appeared.

In the meantime, brownfields and inner residential areas of the intermediary zone mostly remained intact. The rehabilitation of old city areas and the protection of architectural heritage suffered severe drawbacks. This was mainly due to policies favoured by urban development and planning which allocated most resources to the construction of housing estates. Even today, the process of renovation and rehabilitation in Budapest is slow, frequently restricted to isolated enclaves. Housing estates located in the South-Eastern part of the low-status, slumming outer belt clearly exhibit signs of social and physical deterioration (Csizmady 1996). The condition of public spaces in the city has also declined significantly, especially if they happen to be situated outside areas of dynamic development. Green areas have become smaller and environmental issues have become more pressing. The emergence of the market economy, its social consequences and the changing international role of the capital have altered the city's social structure and intensified social disparities in a spatially visible fashion.

In the 1990s, tendencies characteristic of the (historical) centre-periphery model and state socialism altered their course in response to system change. The impact of the market and the acceleration of housing privatisation led in part to a social revitalisation of the historical belt. The centre and the outskirts stand in a hierarchical relationship in terms of social status. It is true that the social status of

inner city areas has also become more differentiated with strengthening positions of central business areas, the government district and the historical castle district. Nevertheless, the social status of the population living on the edges of the inner city areas and in the intermediary belt has significantly decreased. Signs of poverty have become more visible. With the exception of high-quality housing estates of the state socialist period, the decline of the social status curve is also observable in the case of housing estates, although their condition is somewhat better than that of deteriorated areas surrounding the inner city. Poverty historically present at the capital's outskirts has become even more acute.

Receptivity to Global Economic Forces

As seen in the above sections, economic processes that are the main determinants of urban planning changed during the years of transition. In what follows, we will present the results of empirical research on this problem.

In the early years of system change, the Institute of Sociology of the Hungarian Academy of Sciences (HAS) and the Paris-based ACT Consultants (commissioned by DATAR [Délégation à l'Aménagement du Territoire et à l'Action Régionale]) conducted a joint research programme. This research analysed the restructuring of Budapest's regional role as a result of political changes in Central and Eastern Europe and assessed the potential of the Hungarian capital to assume central functions in the Carpathian Basin (Fayman and Szirmai 1993; Szirmai 1994). The main questions were the following: How can Budapest integrate into the European urban system? What kind of relations will it develop with Vienna and other large cities of the Central European region? Finally, in doing so, will it mainly aim at cooperation and collaborative forms of competition, or rather become engaged in rivalry?

Most interviewees¹ had no doubt that Hungary would eventually catch up with the West. The success of Western examples of urban development was hardly questioned. Only a minority voiced substantial reservations concerning the effects of globalisation on urban development. In that period, however, critical views regarding the probable detrimental effects of emerging market society completely lacked social support. Nor did social movements express much criticism of what was going on at the time. Elites were in general agreement in this respect. That is to say, they urged the adoption of Western models of development and strategies of FDI-driven regional and urban growth and welcomed the effects of globalisation.

Another architectural and urban studies research project² conducted in 2002 reached similar findings. The surveyed professional groups were still ready to accept existing urban development models and global effects. However, it was also found that critical attitudes had become more widespread. This is mainly to be attributed to the fact that the unfavourable consequences of globalisation had become more visible with the passing of time. There was also a growing awareness that professional opportunities and living standards of Hungarian architects and urban studies experts became more differentiated. At the beginning of the decade, members of the architectural community interviewed in Budapest generally agreed

in demanding a paradigm change, i.e. a new course of urban development that respects global and local interests and strikes a balance between global and historically-rooted architectural cultures.

Architects and urban planners interviewed positively evaluated several urban development policies including the revitalisation of deteriorated urban districts and new pedestrian streets. They welcomed a visibly more dynamic urban life thanks to these measures. The revaluation of traditional cafés, restaurants, and pedestrian streets, the widening range of urban services and the restructuring of brownfields were also greeted enthusiastically. On the other hand, they regarded the construction of office buildings, residential parks and shopping malls as the most negative consequences of today's market-dictated tendencies. According to some (primarily, representatives of older generations with links to academia, members of the Architectural Chamber, and civil associations), significant problems were caused by the fact that 'speculative construction, for years a received form of architecture in Western Europe and in the United States, appeared on the scene, although it had scarcely been present in Hungary in earlier times.'

Shopping malls were among the first to stir professional and political controversies in almost every large Central European city. Not without reason. One of the first sectors targeted by multinational capital was retail including existing state-owned retail networks. Privatisation and economic transformation proceeded extremely swiftly in this sector (Furmann 2001). Changes were supported by considerable forces in urban development. As a consequence, the location of shopping malls generated conflicts of regional and social interests (for instance, between the municipality of the capital and the municipalities in its surroundings). Due to prohibitions and regulations imposed by local governments in Budapest, numerous multinational commercial chains settled around the capital. The revenues obtained in this way gave rise to disputes between the capital and settlements located in its environs. These disputes were, however, frequently disguised as conflicts of architectural ideologies.

The principal cause of professional differences was that it was in this sector that experts of urban development first encountered the consequences of market economy and the economic, social, and environmental implications of profit-oriented real estate developments. Neither cities themselves nor their surroundings were prepared to cope with the ensuing favourable and unfavourable effects. Allocation was not centrally administered. Various interest groups involved in urban policy-making with incompatible views on the development of shopping malls invoked professional arguments in favour or against the construction of shopping malls.

Architects criticising shopping malls are aware that people like and also use these new establishments. This should come as no surprise since shopping malls represent the values of consumer society and the needs of particular segments of the middle-classes with rising living standards. Many urban architects (e.g. chief architects of districts profiting from development based on the capital's economic potential and architects of settlements in the capital's surroundings) have reservations about professional opposition to shopping malls. They argue that their construction not

only created jobs and generated increased local revenues from taxes, but also resulted in the development of related infrastructure. According to an excerpt from an interview: ‘all-encompassing restrictions had the result that the agglomeration developed as inorganically as it did, that residential parks were built outside and not inside, that the shopping malls were located not in the centres of intermediary zones but along city-bound highways’.

Rehabilitation is deemed important by everyone. Respondents also agree that ‘urban rehabilitation is important not only for the protection of historical heritage, but also for the present life of the city, the welfare of today’s population, and for those moving or wishing to move to the surroundings.’ However, it is also a majority opinion that ‘urban rehabilitation has come to a halt by now’. Due to the absence of rehabilitation, ‘the middle class of the inner city gradually moves to the agglomeration’. According to another interview, this is a serious problem since ‘the movement of more demanding residents to residential parks draws money away from the rehabilitation of internal areas and places a substantial burden on public transportation’. Many pointed out that the tendencies of suburbanisation fall outside the influence of professional architects. Someone formulated this finding in the following way: ‘architectural effects can hardly be detected in suburbanisation spaces. These are merely buildings the location of which is regulated in erroneous ways.’ The acceleration of suburbanisation worries not only municipal leaders of the capital but also architects themselves.

The unfavourable social consequences of rehabilitation processes also remain unresolved. There is a change of population in rehabilitated areas. This results in deepening middle-class segregation. In addition, poorer segments of the population are excluded from these areas. Those affected move to urban areas of lower status, frequently to flats of lower value on the housing market, or even to the countryside.

Expert groups are strongly divided in their attitudes towards privately-financed constructions as well. Members of this professional group who previously worked mostly on projects commissioned by the state (which thus usually met professional standards) find it difficult to accept that a clientele formerly regarded as wholly unprofessional should now have the last word about architectural and stylistic issues. There is, in other words, reluctance to accept that the market decreased the scope of decisions to be taken by architects. As regards this matter, there is no real difference between architects working entirely on the market and those who are still related to the state sector while also accepting private commissions.

Although the majority may well believe that globalisation is an inevitable development, evaluations of globalisation were found to depend to some extent on whether the interviewed architects and urban planners worked in organisations within the state or market sector. The former tend to display a less favourable attitude, while the latter are more positively disposed towards globalisation and made fewer critical remarks. Interviewees representing the interests of local society are also more critical than those more strongly connected to the economy and politics.

Nevertheless, differences are also to be found among urban planners and architects related to the state sector. These differences correlate with the different

development trajectories of specific urban areas. Professional groups connected to activities of areas in the proximity of the Danube, the inner city, and previous industrial areas attracting foreign and domestic capital are on the whole more willing to accept the presence of foreign direct investment and are more inclined to condone unfavourable (let us add, social) effects. These negative effects are regarded by these groups as inevitable consequences of urban development driven by the search for economic advantage. Nor are members of such groups all too concerned with social policies that could set off these effects. They are among those who expect the capital's leadership to support and provide even stronger incentives for foreign direct investment and real estate developments. One of the interviewees went as far as claiming that

‘we should live up to the requirements of cooperation and partnership with investors because rejecting everything is not a proper attitude for development. I think a fundamental change is needed in this respect. We have to realise that it is in fact the investors who mostly build this city, and not the state or the capital.’

Representatives of professional groups working in less well-off districts have a hard time to accept that foreign direct investment should determine urban development and that they should be left out of this development. For this reason, they condemn more strongly the decline of state participation and expect a more pronounced state intervention especially in handling social problems of a spatial nature.

According to respondents more closely connected to the state, Budapest's local government, state universities and academic circles, the solution to the problems of globalisation lies in more powerful interventions by authorities of urban planning and in stricter professional control. This group tends to reject ‘spontaneous developments’ that have taken place so far. They are also more inclined (although even this group counts few such initiatives) to call for dialogue with civil society and related professions. Similarly to chief architects of dynamically developing districts, representatives of enterprises closer to the market sector (even those previously working for state firms) would allow a much larger scope for private developments. They regard support for these developments as the solution to existing problems of Budapest. They would welcome the reduction of the scope of regulative and administrative interventions as such measures could slow down urban development.

Obviously, it is impossible to make general statements concerning the development of Budapest and its exposure to the influence of globalisation and market society. This is evidenced by the frequent mentioning of both positive and negative effects in the interviews. A general summary of the opinions expressed, however, should weigh criticisms somewhat heavier. The consensual opinion of the interviewed architects and urban experts is summed up in the sharply formulated view of the following quote:

‘Budapest lost thirteen years due to the complete lack of strategy, development preferences and the priorities to be set by the capital itself’. This is why ‘driving forces of development’ have abandoned Budapest and this is why it is argued that towns surrounding the capital are now in a much better position than Budapest itself. This is also why ‘the development of the whole city is not in the control of the Budapest and district local governments, but rather in the hands of private investors who have appeared here. Local governments display what is in general a merely reactive attitude. Investors first appear on the scene, and then local governments attempt *ex post* to keep them within the confines of rules acceptable for the local governments themselves. This is a passive form of urban development as opposed to the Western European type of active urban development. The essence of the latter is that the local government controls projects and assigns roles to private entrepreneurs on the basis of public-private partnerships’.

The Role of Architecture and Urban Planning

In the early years of system change, a (relative) social consensus prevailed that urban development was to be driven by the economy and that the key to entering the European urban network and global economy lay in the development of an urban economy. Various interests in the global economy and the absence of national capital were both responsible for the fact that developments actually taking place in Budapest were ultimately shaped to the largest extent by politically-oriented capital investments, real estate markets and real estate speculations.

System change, the processes of globalisation and European integration altered the positions of the main social actors determining urban planning and architecture. The hierarchical position formerly occupied by national and local actors in politics and the economy (including the national government as well as local governments) have been weakened, while international economic (investment, real estate management) and political institutions (e.g. those representing the European Union) have acquired more influence.

Respondents argued that the development of urban architecture and that of architecture in general is primarily determined by economic and political interests. Social perspectives (primarily those of the elites and middle-classes) that are taken into account are tied up with global and local economic interests.

There is no historical precedent for the active participation of urban society. Although significant institutional changes took place in the 1990s and new civil associations emerged, not even the more prominent, historically-rooted social and professional organisations command real lobbying power. Representatives of civil and professional associations interviewed in effect shared this assessment. One of them went as far as saying:

‘As I see it, the participation of civil associations is a legitimising element. It is by now clear that effective influence can only be exerted through politics. Those in

power are only sensitive to political power relations. The control and assistance of the so-called civil society is equal to zero. I have no illusions in this matter.’

We have also found interesting discrepancies among the opinions of various professional groups involved in urban studies. Nearly everyone would find it crucially important that civil and social associations participate in the decision-making processes of urban planning. Such participation is generally regarded as a necessary component of the workings of modern democratic institutions. Those with more extensive international expertise, academics at universities and research institutes, heads of leading architectural offices producing original work, and famous architects receiving important public and private commissions are more willing to accept civil participation. Those (smaller) enterprises which are more exposed to market forces are less favourably inclined towards civil participation. The same holds true for respondents whose clientele includes local governments and thus encounter the constraining effects of civil preferences on planning on an everyday basis. Those who are incapable of taking part in the implementation of novel forms of social planning due to their vulnerability to market forces, the countervailing interests of local governments and the lack of capital share these negative reactions as well.

Although only a complex explanation of these phenomena can suffice, we can generally diagnose that

‘we are at the very beginning of the emergence of so-called democratic values. Methods enabling civil associations to participate in the shaping of urban development policies are yet to strike root. What we need is methodological innovation.’

There is also, we can add, an urgent need for the reform of institutions enabling social participation.

Conclusion

System change transformed the former centralised system of urban planning. Major social players of modern urban planning appeared on the scene. Local governments, civil associations and certain professional groups have also acquired some influence in addition to state organs. However, these actors were forced to accept disadvantageous roles in urban development and planning due to the combined effects of economic difficulties accompanying the transition, state re-centralisation and economic development strategies pursued in urban areas.

At the beginning of the 1990s, architects were unable to influence decision-making as a professional group because of institutional and social deficiencies of participatory mechanisms. Urban actors concerned could not shape the network of various interests impacting urban architecture, nor did they really attempt to do so. They were not in a position to steer investments or control the appearance and territorial strategies of multinational retail chains. Professional groups allowed free

reign to the effects of globalisation as well as investments and real estate developments which privilege certain urban areas (and certain social groups).

Professional standards of architects and urban planners are realised to the extent they accord with the interests of global and local political forces and the clients' expectations. As a result, economic priorities tend to take precedence over professional standards. Urban architects are also aware that neither social needs in general, nor the spread of current patterns of consumption in particular, favour high quality architecture and urban planning. There are some who feel that there is a large discrepancy between architectural taste and culture, on the one hand, and society, on the other.

The social background of architectural commissions and the few existing connections interfacing architectural activities and social demands also explain the lower professional quality of completed projects – a problem of which architects are acutely aware. It is true that there are differences between preferences for commissions given by well-to-do individuals, on the one hand, and those of foreign investment groups and entrepreneurs realising projects on their behalf, on the other. However, these preferences have one common denominator, namely that they call for professional solutions diverging from previous criteria and often conflicting with the most recent architectural trends. It is safe to say that those more receptive to such trends claim a smaller share of the housing market mainly because of financial problems.

The absence of projects for public spaces and housing developments commissioned by local governments also undermine professional standards. This is because completed commissions by state and local governments usually yield solutions of higher quality or at least different from the expectations of investors.

The social embeddedness of architects is limited. This explains in part their dissatisfaction with their principals. First, they are connected only to certain groups of the population. Second, they have no connections to civil associations (which in turn lack connections to each other or to the population at large). Third, the prevailing spirit of competition, which is devoid of any solidarity, weakens the group and its professional lobbying potential. Another important reason for the limited scope of relationships is that new, mostly global, players in urban planning import their own experts. This relegates many architects to a peripheral position.

Most architects have accepted compromises with political forces which were inevitable for professional and existential reasons, although the extent to which they have done so can vary. Some step aside, others participate in international public activities, while many see an opportunity for participation in the activities of professional organisations. These professional organisations have been led by committed individuals ever since their foundation. At the same time, the influence of such organisations is highly restricted.

The processes described above have had concrete consequences for the situation of architects as a professional group. The system change resulted in the emergence of a complex professional planning background capable of representing the various perspectives and interests in the transition, i.e. expectations generated by markets, the state, and local authorities. Architects could maintain and even extend their

networks of international relationships. These are based on a traditionally excellent domestic educational system (which, unfortunately, is increasingly geared towards mass education today) and a degree of tolerance practised by the previous regime. Architects could also preserve professional knowledge accumulated during their collaboration in offices of former great architects. They have remained responsive to relevant architectural currents which determine urban development in every historical period. All this is also manifest in the broad and internationally valued erudition of members of this profession.

The professional group studied in this paper has successfully created the required organisational framework for its activities. Several firms of international renown were formed, many of them winning prestigious national and international prizes. Quite a few architects leading new firms employ former colleagues as well as younger professionals. The financial situation of these architects has also improved, although there still remain big differences in planning fees in comparison to Western countries.

The evaluation of the main trends of the future is not unambiguous. Meanwhile, there are some positive developments as represented by the growing emphasis on requirements of sustainable urban development. The (prospective) strengthening of autonomous social actors and the increasingly visible willingness of professional groups to cooperate may also yield favourable results.

Social and environmental tensions in today's global cities obviously require higher professional standards in planning. Improved social participation is an imperative. It is widely accepted nowadays that the current direction of global urban development is not sustainable. Solutions for social, environmental, and architectural problems presuppose genuine participation of relevant professional groups. The changing demands of the population and corresponding trends observable in the developed world call for a new style of urban planning and development and require expertise sensitive to the needs of society and environment. This cannot be realised as long as architects willing and able to represent social demands are excluded from decision-making processes in urban development as is frequently the case today.

It will not be easy for architects to meet this challenge. Their participation in the transition was not without problems. However, they could largely overcome these difficulties by establishing standards adequate to modern planning and architecture – just as they have done in previous historical eras as well. They thus helped Budapest to become part of the global economy and the European urban network. They achieved this among peculiarly Eastern European circumstances, dependencies and difficulties stronger than in the rest of Europe. All in all, architects have played a positive role since they accepted current global challenges and contributed to the capital's development. They did not attempt, however, to alleviate the negative consequences of these challenges by defending local cultures. To achieve this, it should have maintained better social relations and engage in professional cooperation more actively. It would have been necessary for representatives of society, politics and urban studies to conduct an institutionalised and reciprocal dialogue of equals.

NOTES

¹ 24 in-depth interviews were conducted in the framework of this French-Hungarian joint research programme. Some of them were made with local politicians and decision-makers in a position to influence policies related to Budapest's new role. Other interviews were conducted with representatives of professional groups related to local politics, urban studies experts, urban sociologists, and journalists.

² An international research programme was carried out in order to examine these questions. In the framework of the comparative survey entitled 'The Architectural Culture of the City – Past and Future', we asked architects and urban studies theorists of three cities – Milan, Prague, and Budapest about the social contexts of the architectural culture of the city, and the effects of global and local architectural cultures. In the research led by Claudio Stroppa, Professor of Urban Sociology at the University of Pavia, twelve in-depth interviews were conducted in each city on the basis of common criteria (Stroppa 2003). The international research raised the need for widening the scope of research questions in the Hungarian case study and made it necessary to increase the number of interviewees (which we found to be too few). Another research programme provided the opportunity to realise these goals. Thus on the basis of a contract between the Institute of Sociology (HAS) and the Chief Architect's Office at the Mayor's Office of the Municipality of Budapest, the research could be continued with extended criteria. This research analysed the connection between globalisation and urban architecture, the various interests at play, and the role of architecture today, while also paying attention to questions of urban culture. The support made available enabled us to conduct interviews with a further twenty architects and urban architects in the course of the second research programme. The Budapest case-study thus can rely on 32 in-depth interviews (Szirmai, Baráth and Bognár 2003). Among the interviewees, 11 people are architects; 8 are urban planners; 8 are chief architects or leaders in local and state administrations; 12 are CEOs, chief architects, and urban studies experts in various types of private firms; 5 were university faculty; 16 were owners or co-owners of firms; 3 were members of civil and professional associations. The sample consisted of 26 male and 6 female individuals. The breakdown of the age-groups was as follows: 4 persons under 40, and 28 over 40 years of age. With one exception, all were Budapest residents. The sample was not representative due to lack of resources necessary for the preparation of a representative sample. In selecting the sample, we aimed, on the one hand, to reach heads of agencies that are at present in a position to significantly shape the capital's development. On the other hand, we employed the 'snowball method' enabling a higher degree of random sampling. The excerpts quoted from the interviews always reflect the most representative opinions.

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Chapter 26

Cultural Investments in a City in Transition: The Budapest Case

Krisztina Keresztély

Introduction

Since the 1980s, in West European and North American countries, cultural investments have contributed, to a growing extent, to the social, economic and spatial development of cities, and cultural development has become an important issue for urban policies aimed at improving urban competitiveness. Approximately 10 years after the regime change, this phenomenon is also discernible in Budapest. The Hungarian capital city entered the scene of international urban competition in the 1990s, even though, in the long run, an urban policy promoting urban identity and uniqueness is an important pre-requisite for retaining competitiveness. In the wake of the transformation of the cultural sphere the number of actors who either participated or had a stake in cultural development multiplied. In addition to the representatives of the public sphere, those of the civil and the private sector, i.e. investors, associations and civil initiatives, also appeared. Increase in the number and the diversity of actors also meant new cultural events and the establishment of new cultural institutions at the turn of the millennium.

In the first half of the 1990s, the peculiar attraction of Budapest as a metropolis in transition sufficed to maintain its international competitiveness and economic appeal. For investors, it offered an opportunity for new greenfield investments and for foreign visitors and tourists it was an exotic place disengaging itself from its socialist past. By the turn of the millennium, however, the market of shopping malls and office buildings, the two dominant types of urban capital investment during the 1990s, had become saturated. Thus, today new methods are needed in order that the international appeal of the city can be preserved. A new attitude should be adopted that accommodates the increased importance of culture in the spatial, economic and social development of Budapest. The examples cited in this paper suggest that the process that began in the West in the 1980s had reached Hungary as well by the turn of the millennium. For the time being, however, it is still a moot question whether we are witnessing a new trend or an isolated phenomenon.

This paper focuses on a narrow segment of cultural developments in providing an overview of those new cultural institutions, established in Budapest at the turn of the millennium, that have also contributed to the transformation of the cityscape, the renovation of certain buildings, the revival of districts, the emergence of new zones of urban development and the process of urban rehabilitation. After addressing the issue of the increased significance of cultural developments from a theoretical perspective, it goes on to present those in Budapest from the perspective of the participants who implemented them. It also sheds light on how the group of actors in control of culture and participating in cultural urban development has changed since the change of the regime. Finally, it highlights the special issues that are attributable to the contradictions of the social, economic and cultural transition in Hungary.

Theoretical Background and Trends in Cultural Development

Trends in Cultural Urban Developments in Western Countries

The importance of cultural developments in urban development has long been known. Culture and space as well as culture and cities have always been inseparable. As Scott (2000: 3) puts it, 'Place and culture are persistently intertwined with one another, for any given place – as it is understood here – is always a locus of dense human interrelationships (out of which culture in part grows), and culture is a phenomenon that tends to have intensely local characteristics hereby helping to differentiate places from one another.' This quotation gives us a better understanding of the double meaning of the term 'culture'. It is a universal anthropological term that provides an explanation for the qualitative differences between those human groups that belong to a certain geographical place. Culture also means learning, improving and creating the values that characterise communities. An instrument for the permanent re-creation of symbols, culture has always been stimulated by everyday interactions between people, languages, traditions and cultural interests, etc. that are particularly important in cities.

The growing importance of culture in urban development, which has gained recognition over the past two decades in Western European and North American countries, is attributable to the rise of the cultural sector as part of the new economy. The main characteristic of cultural economy is that the price of goods and services depends on the symbolic value that they represent. Cultural or, as it is also called, symbolic economy includes a wide variety of activities, services and production such as urban (cultural) services (e.g. restaurants, design shops, etc.), public entertainment (e.g. cinemas), publishing, the media and publicity as well as traditional cultural services such as theatres, museums, libraries and festivals, etc. Since the 1980s symbolic economy has been expanding, 'This phenomenon is a reflection of the tendency in modern capitalism for cultural production to become increasingly commodified while commodities themselves become increasingly invested with symbolic value.' (Scott 2000: 3)¹

Associated with this progress, culture as an object of urban development projects has taken on various roles ranging from pure real estate investments to urban

regeneration projects. Since the 1980s, owing to economic crises, reduction in public expenditures and the delegation of public tasks to local authorities, cultural development in cities has become increasingly dependent on the participation and contribution of the private sector. Once social or educational concerns, culture and cultural policy in cities have been subsumed by the economic realm, for example by 'constructing positive urban images, developing the tourism industry, attracting inward investment and strengthening the competitive position of cities' (Bianchini 1993: 2).

However, cultural development has also kept its symbolic and political meaning: 'The consolidation of cultural policy's function as a strategy for economic development, city marketing and physical regeneration does not mean that older arguments for interventions in this area of policy-making have been abandoned.' (Bianchini 1993: 2–3)

During the 1990s the impact of globalisation, especially on urban development, confirmed the trend outlined above. Similarly to high-level economic sectors, the cultural or symbolic economy is also strongly concentrated in large urban regions, in global cities in particular. By virtue of its symbolic nature, cultural economy is particularly capable of creating highly original attractions in cities of any size. Because of this capacity, culture has become an important component of urban development policies aiming to improve the competitiveness of cities in a global inter-city competition.

An increasing number of cities opt for the cultural theme when creating an urban development strategy. The adoption of this approach is often based on the conviction that large cultural investment projects, cultural events or international 'labels' (such as the 'European cultural capital') can, *a priori*, transform urban development in decline into a successful economic achievement.

The most spectacular element of urban cultural developments is cultural 'flagship projects'. The fact that the construction of a museum, a cultural centre or any other similar institution adds to the attraction and familiarity of a city was not, of course, a late 20th-century discovery. Nevertheless, while at the end of the 19th century the establishment of cultural institutions (e.g. museums and theatres of national significance) was mainly a symbol of political power, large cultural projects in the late 20th century, though also aspiring to prestige, lay a stronger emphasis on the economic, real estate market and urban development aspect.

In big urban agglomerations these cultural projects may serve as a catalyst for the regeneration of a neighbourhood of, for instance, a former industrial zone. One classic example is the Tate Modern in London constructed, among other things, in order to revitalise the South Bank of the city. The other example is the new National Library in Bercy, Paris. Simultaneously with the implementation of this project, a new underground line and several residential and office buildings were constructed in an abandoned warehouse area on the Southeastern bank of the River Seine within the city limits. In smaller towns cultural investments or cultural events can turn an entire city from a marginalised or deprived city into a successful one. Classic examples include Bilbao and the construction of the New Guggenheim Museum and Glasgow, where the city adopted, at the end of the 1980s, an overall development

strategy based on the title of ‘European Cultural City’ awarded to it for the year of 1990 (Bianchini 1993).

Yet, it is difficult to assess the effects of cultural investments on urban development by using purely quantitative methods. Data on employment and on the performance of certain sectors (e.g. the cinema, the media, printing, jewellery and the fashion industry, etc.), determined as part of the symbolic economy, are good indicators of the importance of cultural economy in urban life. Research by Scott (2000) confirmed the utmost importance of certain sectors of the cultural economy in Paris and in Los Angeles.

The effect of cultural investments on the spatial development of cities may also be assessed by quantitative indicators (e.g. a rise in real estate prices, the number of new shops and a change in population, etc.). However, when adopting this method, it should be remembered that cultural developments are not *simple* economic investments even if increasingly great stress is laid on the economic impact that they exert.

The secondary or symbolic impact of cultural investments, which does not necessarily translate into an immediate rise in economic and other indicators, is particularly important. It may easily be the case that the primary effect of the establishment of a cultural centre is that it secures attention. It can draw attention to the potential cultural and tourist appeal of a district, the urgency of revitalising a residential quarter or the indispensability of co-operation between the participants with a vested interest in a given area. Cultural developments can kick-start the socio-economic development of neighbourhoods or even entire cities, where other sectors, financial returns on investments being uncertain, cannot take root. Cultural developments do not usually require immediate financial returns, some even dismiss the idea that they should break even. A good example of this is the establishment of independent cultural and art centres through the gradual restoration of industrial buildings occupied through an act of squatting. The movement started in Western Europe and North America in the 1960s, and has inspired the establishment of several, now internationally renowned, centres (e.g. Melkweg in Amsterdam and UFA Fabrik in Berlin). The urban environment in which they operate has been transformed significantly, and also gained in prestige (Raffin 2000; Evans 2001).

Various art initiatives and urban public art projects also owe their importance, in terms of urban development, to their symbolic and attention-provoking effects. An example from Budapest is the *Moszkva Square project* launched by the Ludwig Museum in the summer of 2003. The project was intended to give a new character and identity to a square, which is notorious for its dereliction, but which, as a strategic hub of urban communications, is regularly frequented by Budapesters. Zukin (1995) claims that such events also affect urban policy, as they propose solutions for the utilisation of certain areas that city management would not be able to put forward for economic or political reasons or otherwise.

An oft-cited example of the symbolic nature of urban public art is the *Statue Park* in Budapest. The idea of collecting public statues praising the communist regime in Budapest and exhibiting them in a mausoleum-like park in an outer district of the city arose after the regime change. The objective of this initiative was the

preservation of the memorabilia from a past fraught with bad memories in a manner that their visible presence should not upset city-dwellers daily. They should keep a low profile and remain almost invisible, yet open to the interested public. Furthermore, the Statue Park was also expected to become a major tourist attraction. In reality, however, interest in it is less strong than expected. Except for guided tours for students and tourists, only few visitors turn up. Not that nobody is interested in the symbols of communism, but rather because they do not know what to think of a deserted wuthering park which can offer only a dull Social Realist exhibition of symbols. It does not speak of the era, point out the artistic merits of the statues or offer related services and programmes. You cannot even have a cup of coffee at that remote place. Thus, symbol creation has yielded rather a peculiar result: it is more like the haunting ghost of communism than a memorial place revealing a certain period in the past and history of the city. Its establishment failed to attract economic investments (e.g. cafés and shops, etc.) and influence the situation and cognisance of the neighbourhood. This example also confirms the fact that the two fundamental components of urban cultural and symbolic developments, i.e. creativity (new ideas, spaces and works of art) and its adjustment to the needs, past, identity and society of the city/town at issue, must exert their joint impact simultaneously.

‘Green-field’ cultural developments, ‘flagship projects’ in particular, also pose certain risks. Authors of studies on cultural urban development often refer to the lack of cultural and artistic concepts in cultural fixed investment projects as the most important problem. In the case of major developments (e.g. the construction of a museum or a cultural centre), expensive large-scale construction often leaves no financial resources that could fund quality art programmes (Landry 2003). Thus, one of the grave risks is that buildings turn into weird cultural plazas or warehouses.

Another risk is that immediate (primary) profitability becomes an overriding concern of cultural development, while the characteristics that constitute the special role that cultural developments play, i.e. the cultural (i.e. symbolic, renewable and creative) and social (community-related) content through which cultural developments exert their secondary impacts, is ignored. ‘By the 1990s, it seemed to be official policy that making a place for art in the city went along with establishing a marketable identity for the city as a whole. No matter how restricted the definition of art that is implied, or how few artists are included, or how little the benefits extend to all social groups, the visibility and viability of a city’s symbolic economy play an important role in the creation of a place.’ (Zukin 1995: 23)

Cultural Urban Development in Budapest at the Turn of the Millennium

From the perspective of urban development, the singularity and uniqueness of culture lies in the strong secondary impact of cultural developments. These developments can serve the purpose of urban renovation and rehabilitation the best and the most efficiently. This feature, albeit isolated and, for the time being, quantitatively limited, has also been discernible in Budapest for the past few years.

Simultaneously with the emergence of the roles that culture plays in urban development, the flaws and dangers observed in Western Europe and North America also materialised in Budapest. The risk of schematic, uninspired and ill-advised

developments is all the more significant here, as several components of urban cultural development have been borrowed from Western models, with no well thought-out urban cultural development visions or strategies backing them.

The reason why cultural developments played an insignificant role in the urban development of Budapest for a long time was a superior economic status which the city enjoyed in East Central Europe after the regime change, and which obviated the need for offering new types of appeal during the 1990s². The majority of FDI in Eastern Europe was concentrated in Budapest, thus it had an unmatched position in the region. Its dominance was reinforced by the image formed of the city in the 1980s, when it was regarded as a singularly attractive cultural and tourist destination among the countries of the then Soviet bloc. The number of visitors to the city increased during the decade, international tourism-related capital investment projects (e.g. hotels along the Danube, Ferihegy Airport 2 and the Convention Centre) multiplied and some cultural developments of international significance were also implemented (e.g. the Petőfi Hall, the Spring Festival and plans for the joint hosting of the Budapest–Vienna World Exhibition) (Keresztély and Ramond 2002).

After 1989, Budapest's unique role in tourism and culture was challenged by competition from Prague and Warsaw. Since the early 1990s, cultural tourism has been on the decline and tourist infrastructure has deteriorated: hotels have been ageing and the renovation of monuments and tourist attractions has been drawing out (in a few cases, e.g. the Castle Bazaar and a few baths, it has been shelved for the future). After the change of the regime, privately funded fixed investment projects played a major role in the physical development of Budapest. Real estate developers did not, however, take an interest in tourism or culture before the successive waves of real estate investment promising rapid financial returns had subsided: first, the frenzied construction of office buildings and de luxe residential quarters (gated communities), then a multitude of shopping malls and hypermarkets. Hotel construction came last, at the turn of the millennium. The 'hotel boom' started around 2000, when, with a view to prestige (symbolic values), famous hotel chains undertook to renovate some well-established old and now derelict listed buildings (e.g. the Gresham Palace).

Yet, Budapest was able to retain its charm in the 1990s. Its appeal was based on its image as a great city disengaging itself from its socialist past, somewhat derelict, but with rich cultural heritage, which even managed to strengthen its position vis-à-vis Prague, 'a jewel box crowded with tourists'. In the mid-1990s a number of West Europeans and American migrants decided to leave Prague for Budapest (Ramond 1998).

The appeal of this somewhat exotic city has been fading to a growing extent, which raises the issue of the sustainability of its international appeal. There is also downside to Budapest's having become a true 'European' city. Exoticism alone no longer works: cultural values, novelties and symbols must be created and re-created. As part of the so often asserted sustainable social and urban development, Hungary and Budapest need cultural development, the construction of cultural institutions and places and the creation of new symbols.

Cultural Investments in Budapest

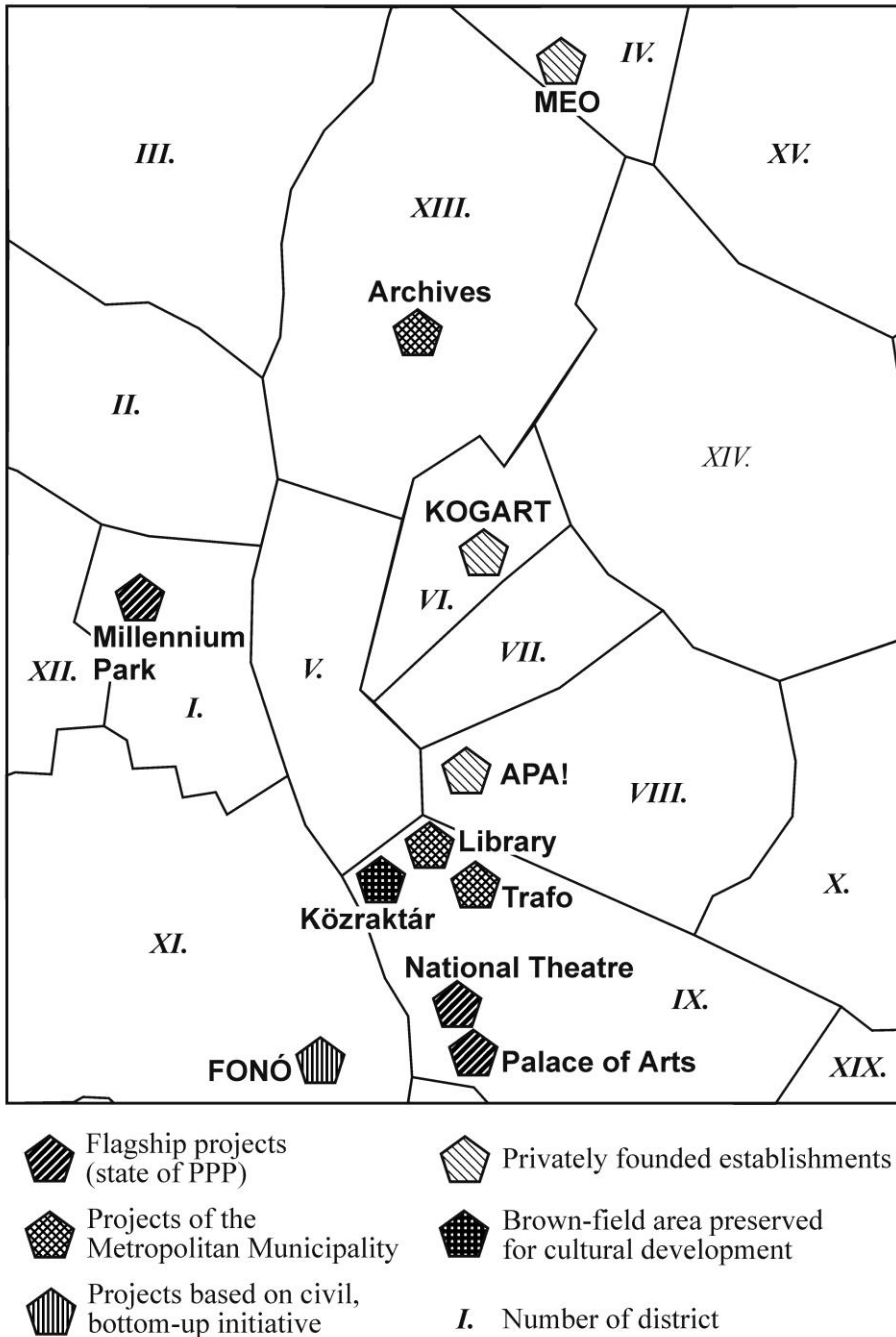
Cultural Flagship Investment – Participation of the Central Government

Despite its partial withdrawal since the early 1990s, the central government has remained the most significant actor in cultural life in Budapest. Due to the concentration of the cultural institutions of national significance here, the majority have continued to be maintained by the state. Responsibilities of the Metropolitan Municipality, traditional repertory theatres are funded by the central government. So are certain events of national importance (e.g. the Spring Festival, national and millennium celebrations). In connection with the millennium events and investment projects³ Budapest was (and still is), for the first time since the regime change, the scene of some large-scale prestigious capital projects (e.g. the Millennium Park, already completed, and the Palace of Arts in the Millennium City Centre in Ferencváros, twinned with the new National Theatre) seen also as political symbols and implemented with government involvement (Keresztély 2003a).

The novelty and international significance of the *Millennium Park*, established through the conversion of an industrial complex in the inner city, lies primarily in its architecture (Figure 26.1). The original objective of this purely government-funded investment was to provide a place that could house an exhibition dedicated to Hungarian inventors and the history of their inventions. The idea of building a cultural park on the premises of the one-time Ganz Works in Buda grew out of this concept. No sooner had it been completed than it became obvious that, similarly to La Villette Science and Technology Park built in Paris in the 1980s, this theme park, established through the conversion of industrial buildings, represented an unprecedented architectural solution. The impact of this investment project is unquestionable: it has contributed to the regeneration of one of the city's most important communications hubs (Moszkva Square and its neighbourhood) and to the emergence of a novel cultural institution on the Buda side of the river, challenging the overpowering superiority of Pest in terms of cultural and entertainment facilities. In the summer of 2003, Millennium Park won international recognition for its architecture: along with the renovated Szabó Ervin Library, it was granted the Europa Nostra Award.

The Park, in the first year of its operation, i.e. between the summer of 2001 and 2002, mainly focused on a national exhibition. Thus, the programs that it offered did not become an integral part of the city's cultural life. After the change of government in 2002, contrary to earlier plans, the Park was not privatised. It remained a government-funded institution to be developed as a centre of culture, technology and informatics.⁴ Despite political debates on its operation, an economic limbo and unclear ownership, its operation began to change in late 2002, when its programme started to include special guest appearances from foreign troupes, and it sought co-operation with other metropolitan cultural institutions and associations. Millenáris Park slowly began to be integrated into Budapest's cultural life.

Figure 26.1 Main new places of culture in transition in Budapest



Source: Author's compilation

Another large-scale capital project is a construction project on a site which was to have been the premises of the World Exhibition, next to the new National Theatre inaugurated in the spring of 2002, in Ferencváros (the 9th district), South of downtown Budapest. The project, which is implemented within the framework of public-private partnership, constitutes part of an urban development project unparalleled in Central Europe. The Palace of Arts, to be constructed in the first phase, will form part of the Millennium City Centre, a new residential quarter with entertainment facilities. The building to be inaugurated in early 2005 will house three institutions: the Ludwig Museum of Contemporary Arts, the National Concert Hall and the Festival Theatre.

The issue of content, a recurrent risk that crystallises in cultural flagship projects, cropped up in this case as well. The *Palace of Arts* (initially called ‘Cultural Block’) was to house the Modern Hungarian Arts Museum. Only in the preparatory phase of the construction did it become clear that there was no professional vision of the subject of the standing exhibition, i.e. the core exhibition of the museum, that it was to display. The lack of such a vision became evident in the course of debates between art historians and museologists and from the declarations made by them⁵. The construction of the first Hungarian museum of the 21st century under a grand-sounding name was begun, with no available collection of national significance worth displaying⁶. Finally, in 2003, a decision was made on the relocation of the Ludwig Museum, the only collection of contemporary art worthy of mention, to this place. First, however, the approval of the founder of the collection had to be obtained⁷ (Keresztély 2003b).

The prestige of the new Palace of Arts (and the Millennium City Centre project as a whole) may easily be called to question by a problem that the entire project seems to share, i.e. the lack of co-operation between the various levels of the public sphere. This is reflected in, among other things, the state of communications in the area. One of the lines of *HÉV*, the metropolitan surface train network, a key means of transport in suburban Budapest, runs along the River Danube, the most valuable piece of land in this area. Negotiations on turning this section of *HÉV*, which is in the ownership of the Metropolitan Municipality, into a subterranean section were discontinued, which is a typical example of the disagreements between the capital city, the government and the investor. The construction of the Millennium City Centre may play a fundamental role in the rejuvenation of the neighbouring areas: it may be able to speed up the urban rehabilitation programme in Ferencváros, launched with the participation of the district municipality in the late 1980s.⁸

Role of City Authorities: Culture and Urban Rehabilitation

After the regime change Act LXV of 1990 on Local Governments specified the duties and roles of local authorities and provided for the decentralisation of government institutions and other state-owned assets with respect to these roles and duties. This reform has led to the evolution of a two-tiered system of public administration under which districts and the capital city are autonomous municipalities with the same legal status. The law stipulates that basic duties⁹ fall under the competences of the individual districts, while mid-level institutions and

those duties that are the shared responsibilities of several districts or the capital city as a whole fall under the competences of the Metropolitan Municipality. As regards the cultural sphere, the direct purview of districts has remained rather limited. The majority of cultural institutions have become the capital city's responsibility or remained in state ownership. Only the ownership of district cultural centres built in the socialist era, often in bad repair, has been transferred to districts. Based on this distribution of ownership, the maintenance, operation and development of cultural institutions in Budapest have become the responsibility of the Metropolitan Municipality. The composition of its cultural expenditure reveals a cultural policy aimed essentially at the maintenance of institutions, with the funding of repertory theatres, which receive regular (normative) subsidies, accounting for the bulk of expenditure.¹⁰

The primary objectives of the cultural investments implemented by the Metropolitan Municipality include the preservation of cultural heritage, the establishment of new institutions, the renovation of existing ones and the replacement of those phased out after the regime change. Examples of the last one include the establishment of the Art Cinema Network, funding the establishment of the Trafó House of Contemporary Arts (or *Trafó*), a replacement for the former Club of Young Artists closed down in 1998, the renovation of the Metropolitan Szabó Ervin Library and the construction of a new building for the Metropolitan Archives.

Despite the lack of an institutional background, district municipalities can pursue an active cultural development policy in several different ways. Relying on their powers to codify and issue decrees and regulations, their ownership of business space, council flats and public roads as well as their right to issue construction permits, they can work out strategies aimed at attracting cultural events and institutions. In so doing, they can also work in co-operation with both public and private sector participants. These strategies mainly promote the urban rehabilitation programmes of the individual districts. The municipality of Ferencváros (the 9th district) applied this approach to the arrangement of an Inner Ferencváros pedestrian street (Ráday utca) lined with cafés, now a favourite tourist destination. The municipality of Terézváros applied for the inscription of Andrassy Avenue and the neighbouring areas on UNESCO's World Heritage List along similar principles.

However, these successes were unrelated to each other, confined mainly to the very districts where they were achieved. In addition, the districts compete rather than co-operate with each other. The autonomy granted to district municipalities hampers the development of uniform urban strategies and co-operation between districts. The impact of this prevailing problem is now clearly felt in issues concerning the rehabilitation of the historic inner city.

Non-institutional Actors

In order to identify the circle of those cultural associations and civil and profit-oriented private initiatives outside the system of institutions and direct subsidies of the public sector, I used the definition of 'non-institutional actors'.¹¹ The increasing importance of the private sector after the regime change affected the entire cultural sector. However, only in the late 1990s did it enter the scene of cultural investment

projects and institutional developments. The role of the private sector is still unspecified, and it is still too early to identify both the negative and positive impacts that it has exerted on Budapest's cultural and artistic life and urban development.

Civil and Quasi-civil Developments

Fonó (Spinnery) *House of Buda* (or *Fonó*), one of the first cultural centres to be established within civil frameworks, was inaugurated in 1995. It was established in the 11th district, a long way from the inner city area, in a vacant industrial building of a one-time state-owned company, which used to be a car park cum garage. Thus, *Fonó* is a grassroots cultural institution, which – despite its national and international renown – still operates on a non-profit basis, with no regular subsidies granted to it. In acknowledgement of its stopgap role, it has been granted several metropolitan awards (e.g. Pro Cultura Urbis Award in 2002).¹² *Fonó* has by now become an important venue for audiences interested in folk, ethno, world and jazz music. Despite existing cooperation between *Fonó* and other cultural and educational institutions in the locality, the music house is more of urban and even national importance. In consequence, no role has been assigned to it in the rehabilitation of the district.

The *Trafó* was established with financial support from the Metropolitan Municipality on the premises designated for urban rehabilitation in 1998 (see above). The concept of the *Trafó* is similar to that of multifunctional art houses (i.e. *arts centres* or *maisons de la culture*), which gained ground in Western Europe in the 1960s. The objective of these art houses was to intermediate culture in a more flexible and more inclusive manner than did traditional repertory theatres. The informality of the ambience of the building and the joint presence of several arts create an interactive relationship between artists, the audience and arts. The *Trafó* is housed in a renovated industrial building that once operated as a transformer station. Similarly to the *Fonó*, it is of urban and national importance, with a secondary local impact on urban development (Keresztély 2003b).

Interestingly, the selection of the building itself was the result of a kind of civil initiative that has not as yet taken root in Budapest. In the early 1990s a French dance ensemble used the building temporarily with the understanding of the Metropolitan Municipality. Thus, the idea of the transformer station turned state theatre has grown out of an act of squatting, a civil initiative with an explicitly artistic purpose.

Privately Funded Public Galleries

Private museums are a relatively new phenomenon in Budapest. Thus, the title above does not refer to private galleries directly engaged in art trade. Rather, it refers to new establishments which, although privately funded (obviously overlapping art trade to a certain extent), but which are, nevertheless, facilities of public benefit.

MEO, the first private art museum, was opened in Budapest in 2001. The standing exhibition staged at the museum is a collection of the works of contemporary Hungarian artists. The owner, who runs the museum, also has an art

gallery of his own. The museum, which was established through the conversion of the one-time Wolfner Leather Company in Újpest, is along Váci Avenue, once an industrial suburb, now a bustling business district with offices and headquarters of international companies. The location of MEO is highly symbolic: it symbolises the encounter of the residential quarter of the new entrepreneurial class with a privately funded modern art museum, both being the products of the revitalisation of a former industrial quarter; the symbol of the saleability of arts can also be associated with the above symbolic meaning¹³.

Hardly a week after MEO had been opened, another privately funded cultural institution was inaugurated in the 8th district, one of the most neglected areas in the historic inner city, behind the National Museum. The establishment of the *A!P!A! (Ateliers pro Arts) Gallery* was initiated and funded by an American businessman of Hungarian origin. Providing support for Hungarian artists is one of the major objectives of the *Ateliers Pro Arts*. Accordingly, the gallery operates 6 studios, which are used by artists, selected in an application procedure, for a period of one year. The studio gallery is an exclusively privately funded non-profit organisation, the long-term maintenance of which is based on the operation of a restaurant in the building as well as on cultural programmes¹⁴ (Keresztély 2003b).

The role that the *A!P!A! Gallery* plays in the art life of Budapest is difficult to define. Its urban and communal functions envisaged by its owner have not yet evolved. Neither the restaurant operating in the building, nor the cultural programmes offered by the gallery have been brought to a wider public. The completely renovated building, however, certainly is a welcome contribution to the rejuvenation of an 8th district neighbourhood, which has fallen into disrepair. Like its counterparts in the sixth and ninth districts, the district municipality is also planning the culture-based rehabilitation of Inner Józsefváros. After Mikszáth Kálmán Square is renovated, Krúdy Gyula Street will be turned into a pedestrian street lined with cafés and restaurants, etc. The *A!P!A! Gallery* could become an integral part of this process (Zegers 2002).

Opened in May 2004, *KOGART*, housed in what used to be the Young Artists' Club along Andrásy Avenue, is the third private museum in Budapest. Its collection, like that of MEO, has been selected from its owner's private collection.

Of these three museums, the status of the first two is especially remarkable, as both foreshadow future gentrification in the neighbourhoods concerned. In miniature, they are also fraught with the problems that we addressed in connection with flagship cultural projects above: i.e. an increasingly wide gap between art and cultural centres and their surroundings as well as growing gentrification versus sustainable urban renewal and social progress.

A Novel form of the Cultural Rehabilitation: Public Warehouses in Ferencváros

A new element of future cultural developments in Budapest may be the utilisation for public purposes of the *Public Warehouses* along the embankment of the Danube. Most of this Metropolitan Municipality-owned complex of three buildings in one of Budapest's most valuable locations are currently unutilised¹⁵, though several plans have been prepared for their reconstruction recently. The utilisation of the buildings

has by now become a pressing issue, since they could connect the promenade along the Danube in the Millennium City Centre (see above), currently under construction, and the embankment of the Danube in the Inner City. It is a safe assumption that there will be a sharp rise in their market value in the future. In addition to a number of ideas, a few architectural designs and utilisation plans, exemplifying the interlinkage of urban rehabilitation and cultural functions, have also been prepared recently.

Commissioned by the Metropolitan Municipality, a preliminary study on the cultural utilisation of the Public Warehouses in Ferencváros was completed in 2002. The study claims that, through preserving the three existing buildings and the construction of a new one, an urban neighbourhood could be established under the name 'Quarter', which would serve both cultural purposes and as a residential area for the young. The Quarter would accommodate all kinds of art forms, host international performances and operate rehearsal rooms, studios or perhaps even an art school. The complex would also serve as a plaza catering for the young and providing cultural services. It would provide access to postal, banking and other services 24/7, DVD and record shops and family services, etc. (Derdák 2002). The plan offers an interim solution between cultural and commercial utilisation, thereby ensuring the conditions for the long-term operation of 'a cultural plaza quarter'. It is still a moot question to what extent the commercial profile would be dominant if the plan, yet to be approved by the Metropolitan Municipality, succeeds.

A group of young artists and architects who planned to establish an independent cultural centre in the Public Warehouses in the long run intended to draw attention to the importance of the long-term utilisation of the buildings as well as the preservation of their 'identity' and architectural merit, while also pointing out the risks inherent in the cultural plaza project. They were to squat the buildings with the understanding of the Metropolitan Municipality for a month in the autumn of 2004 (Samin 2004). This was to be the first act of squatting with an artistic objective in Budapest.¹⁶ The cultural utilisation of the Public Warehouses could be a new component of cultural urban development in Budapest. It could be instrumental in securing a broader social and political acceptance of the role that culture plays in urban rejuvenation and development¹⁷.

Lessons of a Transient Culture in Budapest

This study is the product of a new research discipline, which is still very much in the making in terms of its methodology and subject matter. It studied recently established cultural institutions and new developments which, by virtue of their physical presence, also play a role in Budapest's urban development. Based on the cases studied, a few characteristics and problems reflecting the conflicting nature of social, economic and cultural transition can be outlined.

Robust decentralisation began in Hungary in the early 1990s, with the state relinquishing control over several sectors. As a consequence, private investors and local or district municipalities have come to play a key role in urban development and the physical transformation of Budapest. Meanwhile, the circle of cultural

institutions remains highly centralised. Major institutions and budgetary funds allotted to them are still divided between the state and the capital city. This renders the development of a policy linking urban and cultural development difficult, since the competences needed for the two sectors are not concentrated on the same level. It is a safe assumption that the cultural policy adopted by the Metropolitan Municipality focuses mainly on the maintenance and operation of the institutions left from the socialist era, while government policy uses cultural developments chiefly for prestige purposes. It is primarily district municipalities and civil and private initiatives that have utilised culture for the purposes of urban development and rejuvenation over the past years. The problem remains that, due to the 'diffusiveness' of participants and a high level of autonomy that local municipalities enjoy, no consistent and coherent cultural urban policy has so far evolved in Budapest.

Like other sectors after the regime change, culture has also become a multi-player sector, the most significant indication of which is that the private and the civil sphere has been carrying an increasing weight among the initiators of cultural developments since the late 1990s. The ratio of the two, relative to each other, is unequal, however. For the time being, the importance of associations and institutions placed on entirely civil foundations is rather low. By comparison, cultural institutions established through either mixed (i.e. municipality and civil) or private funding carry more weight (although both the number and importance of the latter type of funding are rather relative and are far from being comparable with its weight in Western European cities). This peculiar situation may pose a risk with regard to funding, as private investors may exercise increasing clout in defining artistic values. At the same time, however, the number of financially stable foundations and organisations is very low in the cultural sphere. (The Soros Foundation, the most important of them all, discontinued financing culture in 2003.)

It is now obvious that the impact of the symbolic economy on urban development cannot be ignored in Hungary either. The term 'cultural urban policy and development' is still new in Hungary, which increases the risk of schematism, lack of vision, developments ignoring artistic content and the overwhelming dominance of political or economic interests in cultural projects. Thus, it is particularly important that the various artistic, social and spatial consequences of cultural investment projects and developments, such as the negative and positive outcomes of gentrification and the difficulty of the development of artistic content, be, from time to time, reviewed and re-assessed in Budapest (and probably in other cities of East Central Europe).

Nevertheless, the expansion of cultural urban development continues slowly, but is unmistakably noticeable in Budapest in areas like the renovation of buildings (e.g. MEO, APA, Millennium Park and the Public Warehouses, etc.), urban rehabilitation and rejuvenation (Ferencváros and Terézváros) and real estate capital projects (the Palace of Arts). Participants in urban development include the state (Millennium Park), the capital city (Trafó), district municipalities (Ráday), private investors (MEO, KOGART) and civil groups (the Public Warehouse). In other words, cultural urban development is a clear trend in Budapest even if so far there

have only been few and isolated instances of it, and for the time being, it lacks long-term visions.

NOTES

- ¹ See also Zukin (1995), Scott (2000) and Enyedi (2002).
- ² In contrast to e.g. Romania or the successor states of the former Yugoslavia, where, due to their more peripheral position, the practice of urban development is much more advanced than in Hungary, the Czech Republic or Poland.
- ³ The year 2000 was also the millennial anniversary of the Hungarian Kingdom.
- ⁴ The exhibition of 'Dreamers of Dreams' presenting the most famous Hungarian scientists and artists and closed at the end of 2002 is to be replaced with an IT exhibition. Following entrenched political debates on the Millennium Park, according to the latest idea, in line with the spirit of the envisaged exhibition, the Park would be the responsibility of the Ministry of Informatics and Telecommunications in terms of both maintenance and programme organisation (Népszabadság, 8 January 2004 issue) – It is still to be seen to what extent this will affect the Park as a cultural centre.
- ⁵ The Society of Archaeology and Art History, AICA (the Hungarian Section of the International Association of Art Critics), the Association of Hungarian Painters, the C3 Cultural and Communication Centre and the representatives of the Ministry of National Cultural Heritage held a joint debate in the autumn of 2000, which was followed by a joint declaration disclosed at www.epiteszforum.hu
- ⁶ In 1951, the international collection of works of fine arts was relocated to the Gallery of Fine Arts, while the Hungarian collection to the National Gallery. The Ludwig Collection established in 1991 united the two in the case of the contemporary collection. The post-war, i.e. modern, Hungarian collection of works of fine arts is housed at the National Gallery. Apart from them, there is no other significant collection in Hungary. (An interview with Sándor Bodó, director of the Budapest Museum of History, December 2002).
- ⁷ Mr and Mrs Ludwig stipulated that the museum should stand in a pre-eminent location (i.e. in the Castle District) in Budapest. The premises of the Millennium City Centre, currently under construction, a long way from the inner city, are anything but pre-eminent.
- ⁸ Information on the two-tiered city management of Budapest is included in the section below.
- ⁹ Basic education, primary health and social care, the local road network and housing.
- ¹⁰ In 2002, the Metropolitan Municipality provided approximately HUF 1.5 billion in funds for the purposes of the upkeep of the 13 state-funded repertory theatres (also called 'stone theatres' in Hungarian terminology). By contrast, cultural funds (education, music and arts) set aside to support various cultural programmes and those 'alternative' or 'extrastructural' institutions and associations that do not receive regular subsidies amounted to approximately HUF 65 million. The Theatre Funds, for which repertory theatres can also submit applications, amounted to approximately HUF 150 million. In 2002, these theatres were granted two-thirds of the amount of the funds.
- ¹¹ See Zsámboki and Vágó (2003): the authors of this paper use the term 'non-institutional' to refer to alternative theatres and companies that do not receive state subsidy.

- ¹² An interview with Mrs. Irén Tóth Boros, December 2003.
- ¹³ Since this article was completed, MEO has turned out to face grave financial problems. In the autumn of 2004, the building was rented out to an event and conference organiser company.
- ¹⁴ An interview with J. W. Gosch, April 2003.
- ¹⁵ Currently, the few functions and activities in this area are primarily associated with culture. One of the buildings is the premises of a chandlery. A night club operated along the Nehru Embankment in the summer of 2004. The buildings were erected in 1881. Of the original four buildings, three survived World War II intact. The Park is situated on the former site of the fourth.
- ¹⁶ With respect to their character and the ‘message’ that they convey and also as a means, squats with artistic purposes must be distinguished from the unlawful act of squatting by unemployed and homeless persons, in which case social exclusion is the main underlying reason for such an act. Unfortunately, after the completion of this paper, the planned squatting of the Public Warehouses with artistic purposes, scheduled for September 2004, failed. The building turned out to be too prestigious both politically and economically to let a simple act of squatting draw attention to it. The association that organised squatting will start operating in another industrial building. Several investors have indicated their intention to utilise the Public Warehouses. The Metropolitan Municipality is expected to invite tenders in the near future.
- ¹⁷ The project will certainly feature as a flagship project in the application of Budapest for the title of ‘European Capital of Culture’ in 2010.

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Criteria of Rurality for the Hungarian Micro-regions. Major Problems Facing Rural Areas in Hungary

Bálint Csatári

A General Introduction to Rurality and Rural Areas in Hungary

According to the popular view, also reflected in public parlance, Hungary is a highly 'rural' country. In essence, compared to the capital city of Budapest, the only city of European proportions, and its narrower agglomeration, the entire country is 'rural'. Generally speaking, non-Budapesters consider, define and refer to themselves as 'rural people'. One 'goes down' from Budapest to the provinces and 'goes up' from the provinces to the capital city. Even major cities with a population of over 100,000 are often referred to as 'rural cities'. In effect, except for Budapest, all are. To a certain extent, the subtext of the adjective 'rural' is that of hostility against the city as such or the capital city in particular. This is attributable in part to the fact that state socialist settlement policy strongly favoured cities and towns for ideological and political reasons. There were years when as much as 80% of settlement development funds were granted to cities and settlements in urban status despite the fact that the share of the urban population within the total population hardly reached 50%.

Relative to the spatial transformation linked first to urbanisation and later to ruralisation in developed economies in Europe, changes in rural Hungary occurred with a time lag and were rather idiosyncratic in a number of respects. These changes began in the second half of the 1980s and have been going on ever since, i.e. for a decade and a half now.

Hungarian villages and rural Hungary in general gained in prestige temporarily in the second half of the past century only because between 1970 and 1985 the so-called agricultural model, developed and organised rather characteristically, was assigned the role of enhancing the capability of rural Hungary of providing livelihood for those living there. Promulgated in 1980, the 6th five-year plan set, for the first time in the history of five-year plans, 'enabling suitable villages to retain their population' as one of its objectives.

The economic basis for this intended capability-building was in part a highly specific Hungarian agrarian model, which integrated household plot production in rural or outlying areas (scattered farmsteads) into large-scale agricultural production in the provinces. Engaged in commodity production proper only in a few exceptional cases, these small economies, 'reorganised' on the relatively low technological level of one-time peasant farms, were able to enhance the capability of rural Hungary of providing livelihood for those living there through a significant labour input involving unpaid family workers at weekends.

Family income thus earned in quasi-market conditions was supplemented with the income of those villagers, representing mostly trained labour and employed to perform less complex jobs, who commuted from the provinces to industrial or service providing jobs in cities or with the wages of members of agricultural producer co-operatives or state farms employed locally by large companies or their industrial arms.

Fundamentally, rural areas in Hungary owed their relative pre-regime change stability to two trends. One was continuous expansion in formerly dominantly rural areas that were affected by the initially agglomerational and subsequently suburban spatial development of dynamic cities, with the resultant radical transformation of these areas. The other was the above three sources of income for village families. Some researchers claim that the 'most organic' transition into a market economy in Hungary was that of these quasi market-compatible family farms in rural Hungary.

It was income earned in this half grey, half black economy that, from the mid-1970s, financed the construction of new homes, farms, village infrastructure and the purchase of passenger cars in 'viable' villages and that improved life conditions in general in villages, which thus approximated to urban living standards. This process was also referred to metaphorically as 'rural urbanisation within the fences of the household plots of villages', as overall settlement conditions and communal infrastructure in villages – due to the lack of, for instance, a market-compatible tax regime – developed less vigorously than did the property (i.e. land and farms) of some increasingly affluent villagers.

Rural transformation generated by the regime change was dramatic and profound (Enyedi 1996). Key components of this transformation were as follows:

- Both organisational and ownership structure in agriculture changed nearly completely. Close to 1 million new (!) landowners, who had severed their ties with the provinces and agriculture long before, emerged in the rural space. This process was choreographed by a rather peculiar compensation law. The dissolution of nearly all collective farms, the privatisation of their non-agricultural arms and the falling apart of the Eastern Comecon market dealt a crushing blow to rural Hungary.
- Socio-economic relations and spatial movements in the rural space were re-established and re-arranged between inner areas developed in unbroken rows in villages and outlying areas under agricultural cultivation, on the one hand, and cities/towns and villages, on the other. As regards the latter pair, commuting between the two fell dramatically due to the collapse of the so-called socialist industry, or rather its branches in cities.

- Newly established small and family farms in the provinces lacked in capital, means of production, market savvy and a modern agrarian organisation. Simultaneously, the former three sources of rural income mostly dried up or became rather uncertain.
- New, democratically elected municipalities were formed. In the wake of a rather liberal municipality law, which had ultimately put an end to an earlier hierarchy of spatial and supply-based relations, rural societies initially thought that they would be able to make a difference as to their own future, bringing about a change for the better rapidly. However, macro- and micro-economic fundamentals, concerted co-operation in area planning and development and the necessary expertise were missing. For lack of satisfactory decentralisation and genuine subsidiarity, transition resulted in the emergence of a multitude of ‘hesitant’ settlements in the rural space.
- All these combined to lead to a rather differentiated transformation of rural Hungary, rapid and sharp differences in the level of development in rural areas and an entrenched crisis of the provinces.

There is general consensus that the biggest loser of the regime change is rural areas and societies. The lack of co-ordination between and the unsuccessfulness of fledgling area and rural development in Hungary, the failure of SAPARD¹ and recurrent agrarian crises and demonstrations did indeed erode rural areas permanently (Romány 1998).

Definition of the Countryside

The provinces (typically referred to as ‘the countryside’ or ‘rural areas’ in English; ‘vidék’ in Hungarian) owe their characteristics mostly to the idiosyncratic spatial processes that occur in them. Such countryside-specific processes are associated with landscape and nature protection, special rural resources (e.g. water utilisation and recreation) and food production, the classic role of the countryside. In certain rural areas dominant and partly new functions include residential, employment, second home and recreation functions, with employment entailing commuting.

Generally speaking, partly despite and partly consistent with the above, all those important and typical phenomena are present in the rural space in Hungary that characterised rural transformation in developed European economies, and still does at the turn of the 21st century.

The first key issue of integrated rural development was the same in the developed economies of Europe in the 1960s as in the Hungary of today (Fehér 1998; Kovács 1998; Csatári 1999b). The future of rural areas and villages depend on whether solutions can be found to the objective difficulties facing agricultural production in various natural environment, economic and social settings (George 1963).

The first comprehensive UK university textbook on this subject matter already discussed 3 much wider rural issues: (i) the depopulation of the countryside followed by the ‘re-population’ of certain regions; (ii) the spread of commuting, vigorous social mobility and blossoming social relations; and (iii) consistent landscape planning and rural development urged by pressing needs for recreation

and landscape development (Clout 1972). Subsequent issues, embedded in other major contexts, included the accessibility of rural areas as a fundamental problem and the need for the deliberate development of key rural and small-town settlements in the supply and service-providing chain (Mosely 1979).

Conducted in the wake of partially successful rural development interventions that had been going on for a decade and a half then, studies addressing these issues in the 1980s and 1990s adopted a holistic and nuanced approach to environmental, economic and social sustainability, which they placed, shedding light on the context of and the interaction between these types of sustainability, in the focus of their analyses and proposals for solutions. The most comprehensive possible interpretation of sustainable rural development was provided by the famous Brundtland Report, which insists that rural development must be implemented in a manner that does not compromise the ability of future generations to meet their own needs, enjoy rural heritage and utilise the opportunities offered to them by the countryside (WCED 1987). Sustainability in this reading is linked up with the need for the equalisation of spatial inequalities, which can be measured almost exclusively on the basis of economic development, the increasingly important role of the environment and, most recently, the need for the creation of equivalent living conditions (Mayer 2000).

Studies on integrated rural development define as key issues nature protection, the important social ramifications of local identity and the moral (legal and equality-related), social (community and self-esteem-related) and material (water, food, protection and security-related) aspects of the development philosophies of this kind.

They strive to draw a relatively clear distinction between sustainable agrarian development and sustainable rural development as well as between the needs and possibilities of environment-friendly agriculture and those of its profit-oriented counterpart, while paying special attention to the role and population-retention capability of rural societies.

Adopting the above rural characteristics in Europe as their benchmark, they raise a series of intriguing issues, e.g. What major changes have occurred in rural Hungary over the past one decade and a half? Did they follow the Western pattern or were they completely different? What characterises the various rural spaces and rural settlement groups in Hungary? How developed are they, their economies and societies? What conflicts arose during the transition from socialism into market economy? What successful or less successful attempts at rural development were made in order to resolve them?

Naturally, this paper cannot volunteer to fully answer all the questions above. Its main concern is to perform a brief analysis of the major trends in the various rural spaces, without striving at exhaustiveness.

Rurality of Hungarian Micro-regions

Major concepts and methods, adopted by technical literature on rural and village geography in the developed half of Europe for over two decades, are associated with model calculations and a subtle typification of rural areas needed for the establishment of the index of rurality and, hence, the formulation of the various objectives of rural development.

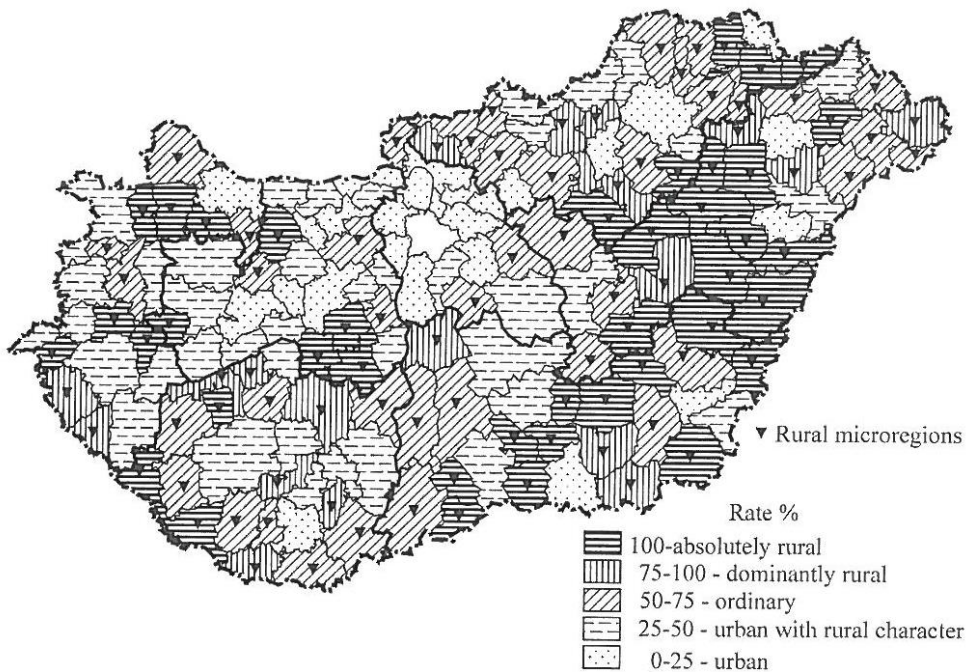
The most straightforward approximate definition may be the one adopted in providing a definition of the village and the city (i.e. the village is what is not a city): a rural area is what is not an urban area. This definition is based on some relativity. According to this definition, when urban spaces are satisfactorily delimited, the cluster of the micro-regions 'beyond the demarcation line' can be considered or qualify as rural (Csatári 1996).

For the purposes of convenience, the density and concentration of the population at the NUTS IV (micro-regional) level² can serve as a benchmark or yardstick. The index of rurality/urbanity, adopted in OECD statistics and also adopted/calculated in part by EUSTAT, shows the proportion of the population in micro-regions that live in urban settlements with a high density of population. This index of micro-regions can be employed in Hungary only if satisfactorily adjusted. According to statistics in developed economies, in order for a settlement to qualify as urban, over 80% of the population in the micro-region concerned must live in a settlement/city with a density of population over 150 persons/km². Only Budapest and the micro-regions in its narrower agglomeration and the Debrecen region meet this criterion in Hungary.

Adjusting this value to the average density of population in Hungary (112 persons/km²) and the country's rather peculiar settlement structure, for the purpose of our analyses, we put the Hungarian index of urbanity/rurality at 120 persons/km². Based on this value, the number of urban micro-regions, including Budapest and Debrecen, is 68 (Figures 27.1 and 27.2). Measured against this, the number of dominantly rural areas in Hungary is 100. They take up 57,235 km² of the country's total area with a population of 3.3 million. Of them, 40 micro-regions have a population none of whose members live in cities as per the above definition with a density of population that indeed represents a higher concentration of population. These regions can be defined as absolutely rural.

It is important to note, and this is also attributable to the characteristics of urbanisation in Hungary, that there are 41 urban regions that exhibit a character of rurality (e.g. relatively high rural employment, a low density of population and a high proportion of population living in isolated areas, etc.).

Figure 27.1 Rural micro-regions, 2001

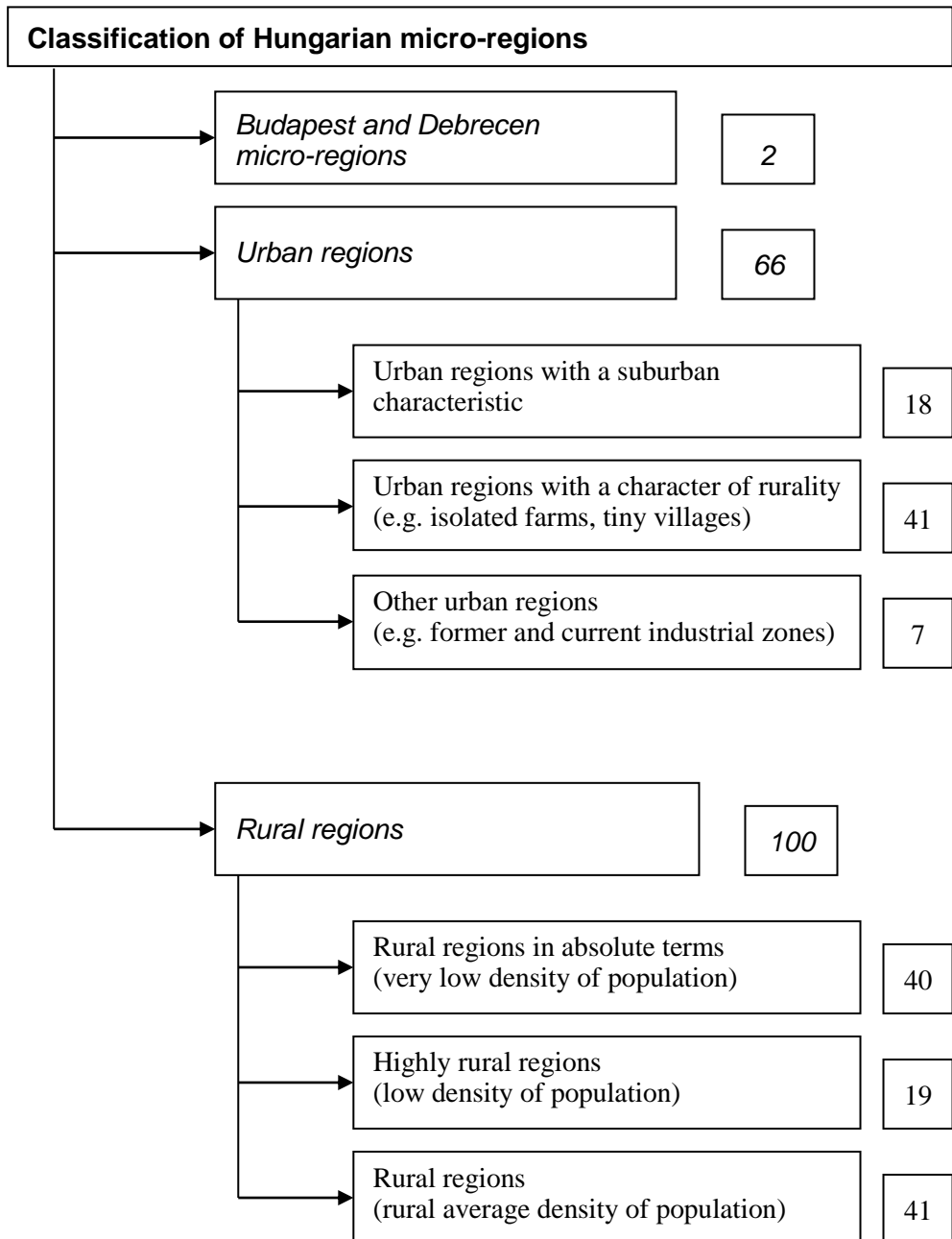


Source: The author's own compilation based on CSO's 2001 census and TSTAR database.

If we adopt NUTS V (i.e. the level of settlements) to rurality or use it to define it, we find that a rural population of hardly over 4.4 million live in 81% of the country's entire territory; corresponding figures for NUTS IV (i.e. the regional level) are 3.3 million and 62% respectively. Both approximations reveal that typical data for and the share of the regions are characteristically worse than it would follow from the proportion of the population (Table 27.1).

This also illustrates the fact that the concept of rurality in Hungary is still associated, and generally justly so, with that of backwardness, unemployment, increasingly poor schooling and Romaisation despite the fact these problems now only face truly disadvantaged regions and settlements and those on the peripheries rather than rural ones in general (Csatári 2000).

Figure 27.2 Classification of Hungarian micro-regions



Source: The author's own compilation.

Table 27.1 A few characteristic data on rural regions³ and settlements⁴, 2003

	Hungary (excluding Budapest)	Rural micro-regions	Rural micro-regions, as a per cent of the national data	Settlements with a population below 10,000	Settlements with a population below 10,000, as a per cent of the national data
Number of micro-regions	167	100	59.9	-	
Number of settlements	3,134	1,813	57.8	2,993	95.5
Size of area	9,250,399	5,732,484	62.0	7,525,974	81.4
Number of resident population	8,420,394	3,348,471	39.8	4,153,237	49.3
Number of the unemployed	366,172	173,106	47.3	200,315	54.7
Number of senior citizens	1,673,038	710,464	42.5	870,212	52.0
Number of agricultural wage earners	112,321	67,467	60.1	81,912	72.9
Number of the Roma population	191,701	113,014	59.0	131,859	68.8
Number of those with university/college level education	580,665	148,281	25.5	164,744	28.4
Number of those with not even primary education	53,429	28,073	52.5	33,603	62.9

Source: CSO TSTAR 2003.

A Few Special Characteristics of the Hungarian Rural Micro-regions

Having accepted as a premise that micro-regions, also determined by the daily life and spatial relations of those living in the country, were the most suited to the analysis of changes, we reviewed three groups of characteristic processes in the rural regions of Hungary defined in the above manner. They were:

- natural, environmental and landscape ‘sensitivity’ and the characteristics of the agrarian environment with special regard to national parks and landscape protection districts;
- characteristics of the rural settlement structure; and
- groups of factors determining the level of development or backwardness of rural micro-regions.

The Hungarian Landscape

The National Agrarian Environment Protection Programme designated 26 environmentally sensitive areas (ESA) in Hungary, with an overall area of 5,717 km², occupying hardly 10% of the total area of rural micro-regions. This is a rather small area in terms of both its size and proportions. Nature protection, bio- and eco-farming, rural tourism and compliance with the requirements of environmental and landscape sensitivity and with the stringent rules governing landscape protection can be regarded as highly important considerations of development under the current legal regulations in only 20% of the areas classified as rural even when national parks (9) and landscape protection districts (37) (a total of 7,824 km²) are included.

This is attributable in part to the fact that the two main trends in Hungarian agrarian policy – one that is in favour of monocultures and large companies, in particular, and another that supports smaller peasant economies – are, for the time being, unable to reach a happy medium between the two major trends of agrarian and rural development, which could – to a certain extent – result in the combination of modern agrarian development and integrated environment-friendly rural development.

As a result, agrarian environment protection programmes can, as a rule, be initiated in much smaller areas than what would be necessary or could be logically expected. This is an all the more unfavourable development, as closer attention should be paid to these important regions of sustainable rural development, which also require special treatment, and it is also in these regions that traditional farming, extensive animal husbandry as well as lawn and flood area farming, which preserves special landscape heritage, could/should be encouraged and supported.

The Hungarian (civil) society of the transition era is not affluent nor gentrified enough to be able to turn the preservation of rural natural heritage and environment-conscious rural development into widespread practice. It is, however, remarkable that thousands of West European citizens have houses, used as second homes, or isolated farmsteads in small Transdanubian villages or in the unique steppe of the Hungarian Great Plain.

Rural Settlements

The second main issue is the characteristics of the rural settlement structure (i.e. size and network problems). For instance, the issue of small villages (i.e. villages with a population of less than 500) has long been the topic of public debates. Yet, during the era of transition they were assigned a much less significant role than was justified in spaces designated for area and rural development.

For the highly differentiated core structure of rural settlements which characterises Hungary, and on the basis of which the classification of rural regions could be further fine-tuned, not only evidences the truly rich diversity of the Hungarian countryside, but also reveals certain results of the history of settlement development, the ones that ought to be taken into consideration even today.

The objectives of rural development should vary according to the structure of the rural regions concerned. (British, Finnish and Dutch rural geographers also worked out similar classifications.)

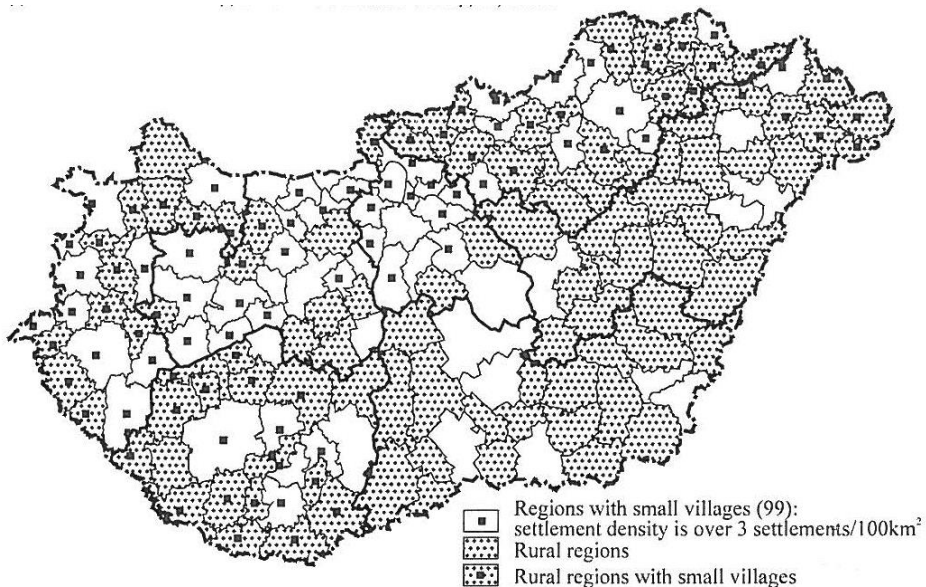
Rural Micro-regions with Small Villages

In the Hungarian settlement stock, as a result of settlement development that fully accommodated former landscape characteristics, small villages have become a major rural settlement type and a fundamental component of rurality. Except in the Southern Great Plain, every region has micro-regions where settlement density per 100 km² exceeds national average, i.e. 3, significantly. In areas other than Budapest 2.8 million (i.e. 28% of the total population) live in regions with a settlement characteristic of this type. Their total area is approximately 32,990 km² (Figure 27.3). The number of definitely rural regions with micro-regions is 52.

The population of the small villages in these characteristically rural micro-regions has been shrinking for several decades now, with their general characteristics including ageing (except in micro-regions populated by a significantly higher proportion of ethnic Roma in South Transdanubia and Northern Hungary), weak local economies, an institutional system that has been scaled down and municipalities with dubious operational capabilities.

At the beginning of the transition era, i.e. in 1990, the fact that rural small settlements, which had been put on the back burner for many decades and which had seen their institutions scaled down, were able to form independent municipalities and elect their 'own' mayors was ultimate 'justice' done. At the same time,

Figure 27.3 Micro-regions with small villages, 2003



Source: The author's own compilation based on CSO's TSTAR 2003 database

however, the ability of these villages to provide services of public administration is low and their economic power is rather weak. In addition, micro-regions as organisational units of area and rural development have failed to take on a solid institutional form that would, indeed, have been able to help solve their problems in a manner tailored to this special type of rural space.

Nevertheless, mainly in Western Transdanubia, in the environs of Lake Balaton and in a few micro-regions with expressly small villages in the Budapest agglomeration, similarly to trends in rural development in the most developed European countries, new, mainly recreational or special residential functions (e.g. second homes) and unmistakable suburbanisation are gaining ground.

As to the future of rural regions with micro-regions, the impact of their small town centres on their catchment zones, the provision of access to services in such small town centres and supporting their economic and job creating functions are highly important. Most of the so-called divisional industries established in small rural towns in the state socialist era have by now gone bankrupt, with resultant high unemployment presenting general and persistent conflicts in these rural areas. It is safe to assume that transition is not over yet.

Rural Micro-region with Tanyas (scattered farmsteads)

They are still dominant forms of isolated settlements in a large number of rural areas in the Hungarian Great Plain.⁵ They can be regarded as a unique form of rural settlements of the region. Dating back to the 17th century, which marked the end of the Ottoman rule in Hungary, an earlier system of tanyas with vast expanses of outlying areas disappeared or changed. They used to be part of one-time market towns or giant villages, a unique settlement type in Europe, exhibiting the characteristics of farming, utilisation of outlying areas and one-time development. Large-scale agricultural production caused significant damage already in the socialist era. Construction in outlying areas was banned before 1986, thus no new tanyas or farms were allowed to be built.

Although between 1950 and 2001 population in isolated tanyas fell dramatically both in number and proportion to approximately 25% of what it had been (from 1 million to 250,000), the number of buildings in tanyas decreased more moderately. This is attributable in part to the fact that tanya owners managed to partially maintain the agricultural and production functions⁶ of their tanyas. This was especially true in areas in the sandy regions lying between the Rivers Danube and Tisia, which are unsuited to large-scale agricultural production, and where viticulture, fructiculture and horticulture are typical. Furthermore, like urban regions and regions with small villages, these rural spaces with isolated settlements in them also started to assume certain new functions (e.g. residential or second-home functions and tanyas functioning as holiday homes, etc.). After the ban on construction in tanyas had been removed (1986) and in the wake of the Compensation Act, certain 're-tanyaisation' related to a changing agriculture was also discernible.

There are a total of 38 micro-regions in the Great Plain where the proportion of the population in outlying areas is above the national average (3%). Thirty three rural micro-regions with tanyas can be separated in a manner that is similar to the

method applied in the case of small villages (the rural base index and the proportion of the population in outlying areas exceeding 3%). The total number of their population was close to 1 million (nearly the same as that of residents in small villages). Their size in the two 'planning regions'⁷ of the Great Plain is approximately 16,000 km². In 1990 over half of the tanya dwellers lived in these rural small areas with tanyas. Except for those living in larger tanyas in the vicinity of more urbanised cities, tanya dwellers face a sometimes dire situation, which is rather similar to that of residents in small villages. A low level of infrastructure in these rural micro-regions is associated with low income-generating ability.

As in the case of small villages, a sluggish and strongly centralised area and settlement policy is unable to address the problems that this characteristically Hungarian settlement type faces. This is all the more dispiriting as it is very important that rural development, better allowing for landscape and settlement characteristics in the Great Plain and following the European principle of diversity and sustainability, should integrate this type of (isolated) settlements unique to Hungary⁸. The in situ knowledge which disappeared completely during the transition era ought to be re-acquired for programmes of rural rejuvenation aimed at landscape preservation.

An important special issue of rural settlements is that what used to be called socialist villages and tanya townships, established on an exclusively state socialist ideological basis in these settlements in order that they could serve large companies, now only vegetate, as the ideological system that created them has disappeared and the companies that justified their existence have been dissolved. Having lost their economic basis, these settlements cannot maintain their institutions or retain their population. Residents either move away or age. It may also be the case that they simply become a residential village. Transition marked the ultimate end of former village life in one-time flourishing socialist villages established nearly 50 years ago.

General and Spatially Cumulative Problems of the Countryside During the Era of Transition

A scheme of dedicated funds, in force for a mere three years, i.e. between 1997 and 2000, in area development (the term 'rural development' has only been in use since 1998) practice in a post-regime change Hungary, allocated, pursuant to a resolution passed by the Hungarian Parliament, development funds to prioritised rural micro-regions identified on the basis of various spatial classifications (Csatári 1996, Csatári 1999a). Overall, financial support was rather modest and hardly produced the desired effect, generating only minor changes in the regions supported.

According to the findings of a study on the impacts of financial support, differences in development at various spatial levels (in regions and micro-regions) are clearly reflected in the assessments of the level of development calculated for the micro-regional level. While the large-scale characteristics of spatial development can be pinpointed on a regional level, issues related to rural development present themselves mainly on the micro-regional level.

Forming a network, micro-regions in the Western Transdanubian and the Central Hungarian regions have become a regionally congruous and increasingly dynamic

zone with a favourable position. Here the convergence of rural regions was also relatively speedy. By contrast, in the Great Plain and Southern Transdanubia, development measurable on the level of micro-regions was significant only in the regions of major cities. For instance, relatively high employment in the agricultural sector is a dominant component of rurality in East Hungary (Kovács 2004, Figure 27.4).

Changes in the micro-regional level of infrastructural development were much more balanced. It was an almost general phenomenon in the Hungary of the transition in the 1990s that municipalities set about overcoming their infrastructural disadvantages with great zeal. Roads were constructed, piped water supply and sewerage were provided, landline phone penetration increased in a matter of a year or two and mobile phones also became commonplace. At the same time, however, these favourable changes were not or hardly accompanied by the development or convergence of local economies. This is one of the common characteristics of the transition era, the likely underlying reason for which is that the accessibility of rural areas by state-of-the-art means of transport has hardly improved.

The micro-regional distribution of income unequivocally reflects strong spatial dualism and a gap between high rural agricultural employment and spatial differences in income (Figures 27.4 and 27.5).

In addition to Western Transdanubia, rather developed rural and urban micro-regions form a congruous area in Central Transdanubia as well. It is also striking that hardly any new economies worthy of mention, capable of generating income locally, are based on the relatively favourable infrastructural network in the rural micro-regions with market towns and *tanyas* in the Great Plain.

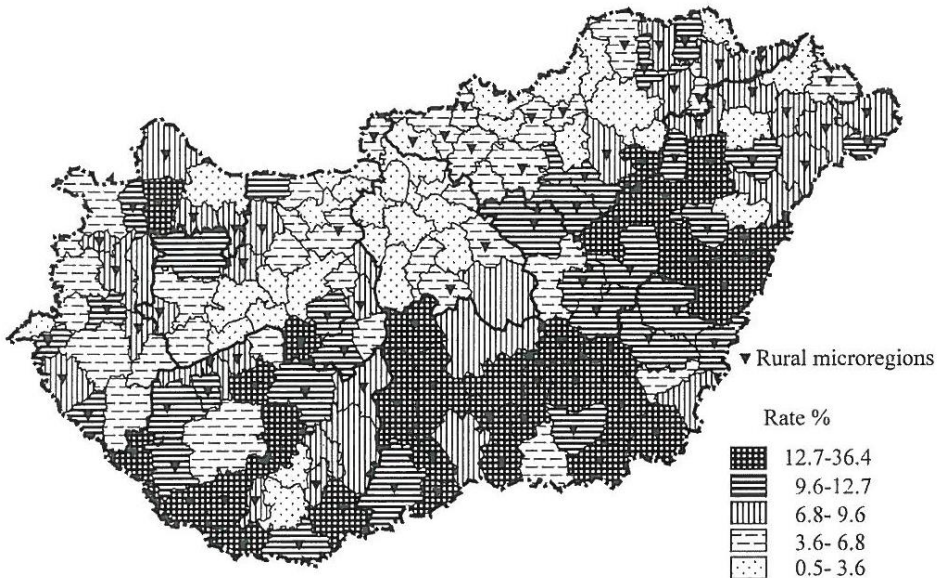
These problems, inherited, to a certain degree, from the previous regime, were further aggravated by a permanent social and economic crisis in strongly rural and peripheral micro-regions. During the era of transition this crisis was amplified by the fact that various problems, e.g. poverty, crime and the inability to act of disrupted village societies that had lost their local intelligentsia, had been disclosed to the public in accordance with a democratic rule of games.

Social circumstances in the above rural micro-regions in Western and Central Transdanubia and Central Hungary have improved and can now be considered as relatively balanced; by contrast, their peripheral and lagging counterparts along the border in Southern Transdanubia and Eastern Hungary form a distinct, contiguous and socially lagging periphery.

Typically, problems with which rural areas have to cope accumulate (Figure 27.6). Only 3 (!) out of the 48 Hungarian micro-regions with a higher-than-average level of development have rural characteristics.

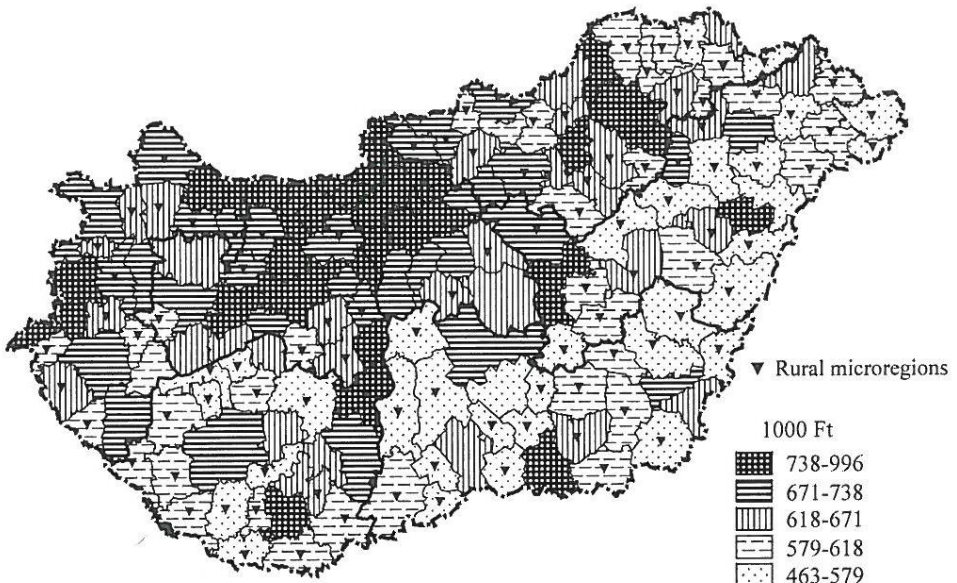
This also means that in Hungary, for the time being, the concept of rurality is associated, both spatially and conceptually, with backwardness, poverty, inaccessibility and the poor availability or lack of human resources.

Figure 27.4 Proportion of agricultural employment, 2001



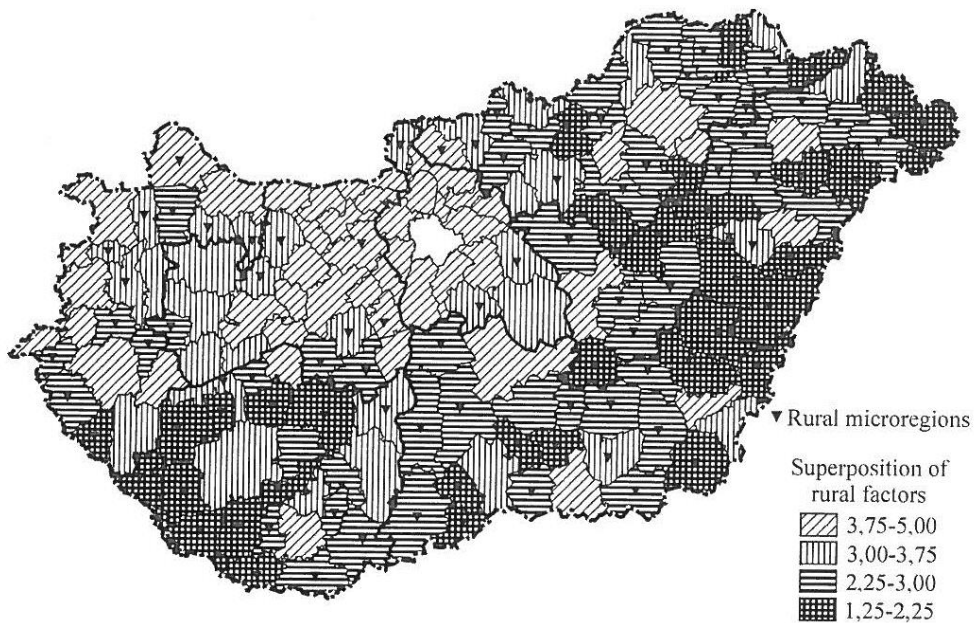
Source: The author's own compilation based on CSO's 2001 census.

Figure 27.5 Net annual income per taxpayer, 2001



Source: The author's own compilation based on CSO's TSTAR database.

Figure 27.6 Aggregate data on the rurality characteristics of micro-regions, 2001



Source: The author's own compilation based on CSO's TSTAR database.

Conclusion

The overwhelming majority of rural small areas in Hungary are moderately developed or underdeveloped economically, infrastructurally and socially. The conflicts that accompanied transition from socialism into market economy hit, without a doubt, rural settlements and societies the hardest not only in Hungary, but also in the remaining countries of the former Soviet bloc. Large-scale, mainly macro-economic, crises often diverted attention from major conflicts in the countryside. Now, a decade and a half after the political regime change, efforts must be made to find efficient and successful solutions to the problems of rural areas that make up two-thirds of the country.

As regards the economic viability of the countryside, agriculture, though a key sector, will be unable to provide all the necessary funds. In order that the ability of the rural regions to provide livelihood can be enhanced, infrastructural convergence, material improvement in accessibility, the development of SMEs in a manner that it is organically linked to the economic and production systems of urban centres and the resuscitation of traditional rural industries are indispensable. Only a successful diversification of rural economies can enhance the ability of rural regions to provide livelihood in disadvantaged ones, unable to achieve complete subsistence, to a level that is acceptable at a national level.

This warrants and justifies an independent rural development policy (planning and scheduling), one that is better-planned and more focused on rural regions. Only a policy that fits in with the characteristically variegated system of development of the Hungarian regions can be successful and effective. Area development policies should better accommodate differences in the history and the settlement development of the individual rural regions, their agrarian economic and social attributes as well as special rural innovation (G.Fekete 2004).

It is safe to assume that transition will resume. The level of development in rural regions in Hungary will approximate to that in developed European countries only if these regions can pass through, at an accelerated pace, the stages of development (e.g. successful agriculture, good accessibility, a well-kept countryside as well as national consensus and support) which developed economies have already passed through.

NOTES

- ¹ SAPARD was the pre-accession programme of the EU's agrarian and rural development policy for the 12 candidate countries that acceded to the EU in 2004.
- ² The fourth level of the *Nomenclature des unites statistiques territoriales*. NUTS I: macro-regions, NUTS II: regions, NUTS III: counties and NUTS IV: 'supra-settlement' level, which is also the first, still local, level of regions and often referred to as micro-regions and/or micro-regions in Hungary.
- ³ Regions where less than 50% of the population in micro-regions live in settlements with a population density of over 120 persons/km² are rural.
- ⁴ Standard practice of rural development in Europe treats settlements with a population of below 10,000 as rural, irrespective of whether or not they hold an urban status, for example.
- ⁵ Called *tanya* in Hungarian, this settlement type resembles its European counterparts only in form. Its origin is completely different. Therefore, the use of the word *tanya* is a preferred term to denote this type of settlements even in English language texts.
- ⁶ For what is called household or second or even third/'family' or in part 'black' economies, see above.
- ⁷ Currently, pursuant to a law enacted in 1996, there are what is called 'planning statistical regions' in Hungary, managed by a political body that comprises the presidents of the elected regional municipalities and delegates with a voting right each of cities, small towns and various ministries.
- ⁸ Successful rejuvenation of isolated settlements in Finland and Lapland in Sweden may serve as examples to be followed.

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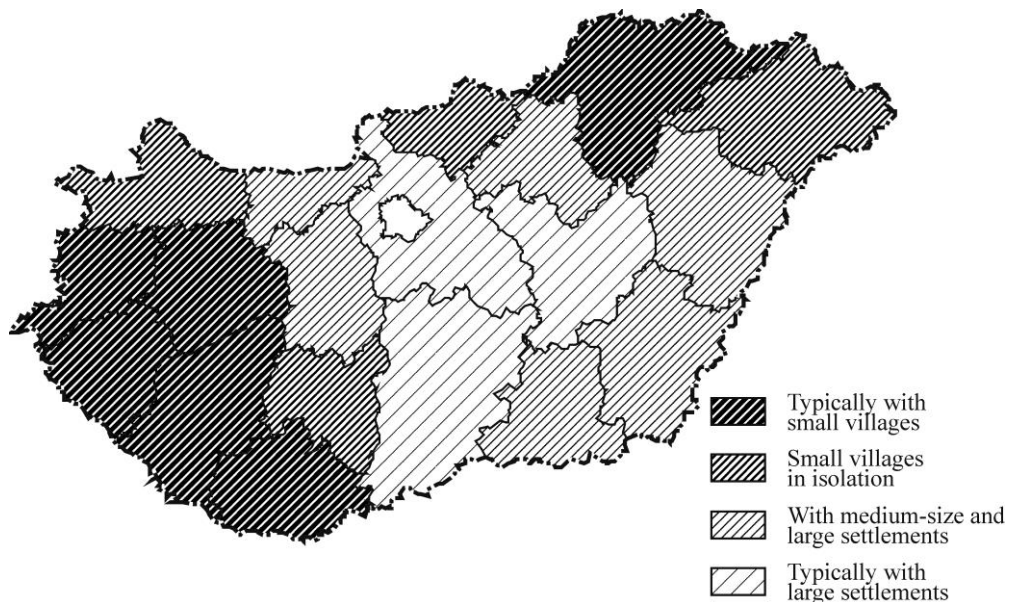
Small Villages Undergoing Transformation

Éva G.Fekete

Introduction

Traditionally, Hungary has had a dual settlement network. Settlements with a population of over 5,000 are common in the Great Plain, while villages with a population of under 1,000 are dominant in hilly Northern Hungary and Southern Transdanubia. 54.4% of the settlement stock comprising 3,135 components are settlements with a population of under 1,000 and 32.5% are small villages with a population of under 500 (Figure 28.1).

Figure 28.1 Hungary's counties in a breakdown by typical settlement size



Source: The author's own compilation.

Small villages have been commanding interest, with a varying degree of intensity and with a changing content, from settlement science in Hungary since the 1970s. Initially, the underlying reason for interest in them was that small villages as products of a feudal past as well as a traditional economy and culture did not fit in with the development pattern of state socialism, which prioritised industrialisation and withdrew funds from agriculture without compensation, while providing ideological argument for doing so. In the wake of the National Settlement Network Development Concept approved in 1971, national and municipal action plans referred to small villages as a category of settlements either disappearing or to be phased out. Blending the mainstream urban theories of the time and the political aspirations of a rather centralised socialist state, politics, aiming at settlement concentration, deemed only settlements with a population of over 3,000 as viable and held that the disappearance of small villages was only a matter of time. A development policy tailored to such principles soon made itself felt. By the early 1980s conditions for small villages had become intolerable, and many were on the verge of physical disintegration.¹

Nevertheless, despite efforts to erase small villages, their number and population have been rising steadily since the 1960s (Table 28.1).

A special mixture of the processes of phasing out and rejuvenation, small villages are one of the most interesting components of the Hungarian settlement system today. The problems facing small villages, expected to permanently account for one-third of the settlement stock, and their population are likely to stay in the long run. New trends appeared and differentiation within the stock of small villages became more pronounced after the political regime change. The transformation of small

Table 28.1 Changes in the population of small villages in Hungary between 1787 and 2001

Year	Settlements			Total	Population		Average settlement size
	Total	Small villages			Small villages		
		Number	Proportion		Number of population	Proportion	
1784/87	3,360	1,883	56.0	2,427,411	470,111	19.4	722
1870	3,103	1,011	32.6	5,011,310	492,322	9.8	1,615
1920	n/a	n/a	24.2	7,986,875	279,541	3.5	n/a
1930	n/a	n/a	22.0	8,685,109	251,868	2.9	n/a
1949	3,264	603	18.5	9,204,799	209,011	2.3	2,820
1960	n/a	n/a	18.2	9,961,044	199,610	2.0	n/a
1970	3,211	718	22.4	10,322,099	216,764	2.1	3,215
1980	3,121	831	26.6	10,709,463	252,733	2.4	3,431
1990	3,070	950	30.9	10,374,823	265,729	2.6	3,379
2001	3,135	1,020	32.5	10,198,315	277,902	2.7	3,253

Source: The author's own compilation based on data from the first Hungarian census (1784–1787), Central Statistical Office (CSO), CSO Census Records.

villages was one of the most intriguing issues in the era of transition. The question is whether or not small villages will experience a renaissance and which small villages can be characterised by dynamism. This paper presents the factors underlying the population growth in small villages in the era of transition, the trends affecting the differentiation of small villages and resultant new types of small villages.

Reasons for Increase in the Number and Population of Small Villages


Paradoxically, the main reason for an increase in the number of small villages is shrinking population. As a result of the migration of the population from villages and natural population decline, which has also come to affect the rural space to an increasingly large extent, a growing number of larger settlements are now included in the category of small villages.

Furthermore, the splitting up of townships, which had been brought about through amalgamation, and the disengagement of entire neighbourhoods, citing their own identity, also contributed to the rise in the number of small villages in the 1990s.²

While the number of settlements at the national scale grew by 65 as a consequence of various split-ups and spin-offs between 1990 and 2001, that of small

Table 28.2 Changes in the number of population by settlement categories

Settlement category	Proportion of settlements (%) in accordance with changes in the number of population between 1990 and 2001 (%)								number of settlements
	x – 40	–39.9 – 20	–19.9 – 10	–9.9 – 0.1	0– 9.9	10– 39.9	40– 99.9	over 100	
	0-99	10.7	52.4	17.5	6.8	7.8	4.9		
100-249	0.3	19.0	34.4	23.6	14.9	7.6	0.3		343
250-499		5.1	27.9	39.5	18.5	8.2	0.7	0.2	574
0-499	1.2	14.5	29.0	30.9	16.2	7.6	0.5	0.1	1,020
500-999		1.3	16.5	47.9	24.8	9.2	0.3		685
1,000-2,999		0.2	4.6	39.6	39.7	14.3	1.3	0.3	952
3,000-4,999			1.0	35.1	40.6	20.8	2.5		202
5,000-9,999			0.7	41.0	38.8	14.9	4.5		134
10,000-250,000				56.0	29.8	13.5	0.7		141
Budapest			100.0						1
Total	0.4	5.1	14.6	39.1	28.4	11.4	1.0	0.1	3,135

 A category of changes in the number of the population typical of the relevant settlement category

Source: The author's own compilation based on the 2001 census data.

villages increased by 70. Of the 70, only 24 came into existence through the restructuring of local public administration; 46 were reclassified as small villages from a higher population category.

The number of not only the settlements, but also the population rose by approximately 12,000, or close to 4.6%. By comparison, the total number of the country's population decreased by 176,000 or 1.7%. The rise was attributable to 70 new small villages and increase in the actual number of the population in 249 small villages. Overall, the number of the population rose in 24% of the current small villages between 1990 and 2001. Population growth exceeded 10% in 83 and 40% in 6. Rapid fall in excess of 20% only occurred in 15% of small villages (Table 28.2).

The break-up of the settlement stock and an increase in the number of its smallest components were simultaneous processes. A reversal in the trend of rapid depopulation in small villages, discernible from the 1960s, points to new trends in urbanisation in Hungary and in the development of small villages.

Factors Causing Differentiation Between Small Villages in the 1990s and Their Impacts

Immediately *after the political regime change* trends in small villages included reduction in earlier rapid depopulation, the migration of members of the younger generation from villages, ageing ascribable to reduction in natural population growth, the complete disappearance of the local intelligentsia, an infrastructure well below the national average standard of villages and an old housing stock. Their economy was characterised by the lack of local jobs, the dominance of employment in agriculture, an almost complete absence of industry and services, an obsolete technology in existing factories even by national standards, an uncompetitive product structure, very low efficiency and strong indirect dependence on Eastern markets. Commuting from small villages mostly added to hidden unemployment. The institutions of basic services had, by that time, been scaled down almost completely. The policy of districting in the 1970s led to the build-up of tension between small villages that had lost their independence and district centres. In addition, small villages were lacking in population that would have been able to bring about the necessary changes. The reasons for this included a 40-year gap in the operation of the institutions of democracy, lop-sided ideological pressure influencing the socialisation of entire generations, a centrally commanded social regime that suppressed self-advocacy and turned citizens into subjects, the on-going disintegration of the traditional value system of the peasantry and a strongly distorted demographic structure brought about by migration.

The 1990s proved to be a turbulent decade in the history of Hungary. The grim legacy of the previous era, globalisation, which had, by that time, also become a fact of life, trends in East Central Europe in the wake of the collapse of the communist bloc, the events of the political regime change and obligations arising from Hungary's accession to the European Union all contributed to changes (Enyedi 1996).

Some of the trends at the time affected all the small villages and led to an extensive alteration in the status of micro-regions within the settlement system. Others precipitated or amplified the process of differentiation within the stock of small villages.

As regards *economic restructuring*, industry remained the engine of the economy (Kiss 1998). However, as, traditionally, there is no industry in small villages, agriculture has remained dominant in their economy. The *abolition of co-operative ownership in agriculture* was a high profile political issue at the time of the regime change. During the era of transition the size of land cultivated by co-operatives shrank by 30%. In 1993 the *system of agricultural co-operatives* collapsed. This coincided with the statutory abolition of the duties related to the employment of the members of co-operatives, which proved to be of crucial importance in developments in unemployment (Harcza *et al* 1994). With agricultural co-operatives having collapsed, an integrator which organised the division of labour between *large and small-scale farming*, played a key role in the modernisation of Hungarian villages, was the sine qua non of household plot production, which complemented regular jobs, and ensured a market also ceased to be in operation. 1.7 million self-employed farmers, each cultivating an average 1-1.5-hectare piece of land, among them 101,000 and 80,000 small producers in small villages in 1996 and 2000 respectively, were left high and dry, with even the hope of being integrated into commodity production vanishing into thin air. Yet, both the number and the proportion of agricultural businesses rose in the second half of the decade. As part of *agricultural restructuring*, the arrangement and re-arrangement of an agricultural structure that better suited habitat characteristics were commenced already in the 1980s. The proportion of woodland is dominant in land utilisation in small villages lying in predominantly hilly areas. In addition to mostly state owned forestry, a large proportion of meadows and pastures also point to the considerable weight of animal husbandry. Although it has lost in importance at a national scale over the past few years, animal density is exceptionally high in small villages. A positive change in the 1990s was a rise in the size and territorial proportion of orchards in small villages. It should also be borne in mind that 12% of the colonies of bees in the country were concentrated in small villages. Thus, agriculture has been revived in some small villages. The type of ownership is another story, however.

The most important step towards market economy was the *re-arrangement of ownership*. Arguably, the population of small villages was the loser of privatisation and compensation, which led to the redistribution of state and agricultural co-operative property. The reason for this was that there was hardly any property to be re-distributed, on the one hand, and even when there was, predominantly elderly persons or those with a low level of education were unable to advocate for their own interests in the course of redistribution, on the other. This is, indeed, one of the reasons why there are no business enterprises capable of establishing an economy based on local resources.

However, the impact of *privatisation and compensation* varied from one small village to the next. As two-thirds of the descendants of former peasants were townspeople, major resources in small villages, including land, woodland, farm

buildings and equipment, formerly in the ownership of agricultural co-operatives, became the property of mainly non-indigenous owners, albeit to a varying degree, in the individual villages. Simultaneously, a certain degree of property concentration evolved. In some small villages the fact that there are too many owners has given rise to conflicts. In others, single, often non-indigenous, ownership of property in both the inner and outer areas of villages has led to the emergence of a special situation. Such a status quo facilitates the development of a structure evocative of one-time *manorial villages*.

Another component of economic restructuring, the *tourist industry* became the most dynamic sector in the 1990s. Although sometimes too much was expected of the sector, its performance, impact on local communities and role in shaping the characteristics of settlements are indisputable. The 1990s saw an increase in the number of both agricultural and tourist industry businesses in small villages. Growth was the most dynamic in small villages in terms of the number of both commercial and private places of accommodation. For the time being, only one-third of all small villages have facilities, with a varying degree of development, of rural tourism. Expansion in capacity has not been accompanied by an increase in the number of guests, with the utilisation of places of accommodation hardly reaching 10%. Of all guests, 77% are from Hungary. Some of the small villages with significant tourist industry capacity are settlements along Lake Balaton providing tourist industry services.

Urbanisation in Hungary has entered a more mature stage of its development. Although a single-centred spatial structure has survived, Budapest remains dominant in terms of both its population and economic weight. It continues to be the centre of new activities incorporated into global relationship networks, financial and information spaces undergoing transformation, scientific and cultural innovation and institutions of national and supra-national control and politics. Yet, new axes of growth have also emerged (Rechnitzer 2002).

Traditional relationships between the town and the country broke up, with *commuting* opportunities diminishing in number in the entire country in the 1990s. Nevertheless, 70% of the population in small villages was employed in settlements other than their own. Our calculations reveal that the personal income earned and the proportion of commuters are closely related. Accessibility to villages plays a lesser role in the number or proportion of commuters. The economic weight of the town is more important than its proximity to villages. Small villages along the axes of innovation running parallel to the seven major axes of traffic leading out of Budapest and in the proximity of large cities were able to develop dynamically and become much sought-after residential areas or logistical or manufacturing premises (Timár 1999).

The *flight of the urban poor to villages* also emerged as a unique trend in suburbanisation, different from what was typical of post-industrial societies (Ladányi 1993). The underlying reasons for such flight included increasingly high costs of living, rents and public utility fees. The appeal that villages and, among them, small villages held for town-dwellers, who used to be villagers themselves, included low property prices and lower costs of living, due to the possibility that food could be

produced on household plots. In this process, targets are more remote small villages rather than those in the proximity of cities/towns. Those migrating to villages often use up their reserves and find it difficult to get used to a way of life based on subsistence. Financial support is hard to come by, and moving back to cities/towns is next to impossible (Bass *et al* 2003). A new social class has emerged in small villages: the rural underclass. It comprises those that have become 'expendable' under a new system of division of labour, which has evolved as a result of the fact that the almost infinite absorption of unskilled labour by state-owned large industry has become a thing of the past (Ladányi and Szelényi 2004). The proportion of the Roma in this social class is significantly higher than their proportion in the population. Encouraged also by the government's population policy, high natural growth, a characteristic of the Roma population, coupled with migration, resulted in the concentration of groups with multiple disadvantages in certain small villages.

With this, a new type of social exclusion emerged in Hungary in the 1990s: settlements undergoing ghettoisation. A growing number of *ghetto settlements* have emerged, with spatial segregation taking on regional proportions (Kovács 2003). Population in these regions is changing. Small villages typically with a large Roma population and high natural growth are experiencing the rejuvenation of rather than a decline in their population. However, population growth also means the reproduction of multiple disadvantages.

The spread of *second* or *holiday homes*, which started in the 1970s, reached small villages in the 1980s. It was the very public debates outlined above that turned attention to peasant homes available at bargain prices in quiet settlements amidst beautiful scenery. With the rise of the middle classes and property prices getting excessive, social re-stratification in the 1990s gave a new impetus to this trend. Urban professionals were expressly bent on finding houses in small villages, as conditions there were suitable for relaxation, the pursuit of outdoor activities and alleviated the symptoms of asthma and/or allergy that their children may have contracted in an urban environment. Given this trend, an increasing number of urban heirs to parental homes in a pleasant setting decided not to sell such homes. Rather, they started to use them as holiday homes. In consequence, some of the small villages are now holiday home villages.

With *institutions of democracy restored* and demand for social justice in settlement policy satisfied, the development of small settlements, doomed to extinction earlier, was given a new impetus. Concerning the spread of democracy, the restoration of municipal autonomy exerted the most profound impact on small villages. As part of the political regime change, local governments were set up in all settlements. After decades, Act LXV of 1990 on Local Governments granted the right to self-determination to the smallest of settlements and provided for the use of budgetary funds at their discretion again. In the early 1990s budgetary support of HUF 2 million per settlement and dedicated funds financing the development of rural infrastructure encouraged local initiatives (Böhm 1998). Influenced by similar impacts, substantial differences arose even between neighbouring small villages in a similar situation, depending on the attitude and aptitude of the management of local governments, the cohesion and activity of village communities and the forms of co-

operation between small villages and former residents. The underlying reasons for such differences include the legacy of the pre-1945 social structure and the impact of a few outstanding persons.

As to the *provision of public services*, despite intentions and political statements to the contrary, the regime change proved to be a curate's egg. While the number of kindergartens, facilities of elderly care, piped drinking water and gas and retail outlets rose, that of schools, libraries and civic centres fell in small villages. No change occurred, at least in terms of quantity, in health care facilities. Similarly, the number of settlements with a railway station and inter-city bus services remained unchanged. A network of post offices, which had covered nearly all small villages before 2002, was completely scaled down in 2004. Initial deconcentration has been replaced by concentration in the spatial provision of services. The increasingly important aspect of cost efficiency and massive reduction in the central funding of local governments at smaller places are bound to lead to the close-down of facilities in small villages (G.Fekete *et al* 2002).

Reinforced by increased awareness of global problems, *sustainable development* became a pressing issue in small villages. Rural regions and, within this, small villages, which had suffered less environment damage and were easier to transform, found themselves in the centre of attention as a result of the need for reduction in the size of what is called the 'ecological footprint' (Gyulai 2000), i.e. an area needed for the production of consumer goods for and the disposal of the waste generated by one single person. As a result of earlier processes of modernisation, it increased to an extent that threatened sustainability in areas of larger population concentration. Further pressing issues included a more limited use of natural resources and their spatial re-equalisation.

Advocates of eco-farming and initiatives for creating eco-villages grew in number.³

Common Types of Small Villages

The above trends of the transition era in the *1990s* amplified the new characteristics of small villages and necessitated a revision of typology.⁴

Based on direct experience from empirical research, 8 types, indicating mainly the economic functions of villages, have been identified (G.Fekete 2004). A system of indicators has been set up to assess the number of settlements in the individual (sub)categories (Table 28.3)⁵.

Traditional Small Villages

The most common type of small villages, accounting for approximately half of the stock of small villages. Processes of degradation, which commenced upon the evolution of the capitalist economy and accelerated in the era of state socialism, continue. Following earlier rapid migration, the adverse impacts of migration have been mitigated. Natural decline is a dominant factor in population developments.

Table 28.3 System of indicators to assess the size of settlement groups included in the various categories of small villages

Type of small villages	Indicators of classification, their values and interrelationship	Villages included in the group	
		Number	Population
Eco-villages	www.okofalu.lu	8	1,474
Holiday home villages	1. Number of places of accommodation for tourists <40 persons and	44	10,178
	2. Ratio of holiday and second homes to the total number of houses >=50%		
Providers of tourist industry services	1. Number of places of accommodation for tourists >=40 persons and	51	14,087
	2. Ratio of holiday and second homes to the total number of houses <50%		
Farming	1. Full-grown standard animals >=200 or	49	15,255
	2. Proportion of vineyards and orchards >=20 ha and		
	3. Number of private farms per family >=1.00		
Manorial	1. Full-grown standard animals >=200 or	92	29,585
	2. Proportion of vineyards and orchards >=20 ha or		
	3. Number of private farms per family <1.00 and		
Suburban	4. Proportion of those employed in agriculture >= 20% and		
	5. Proportion of business enterprises within total economy >= 10%		
	1. Old-age quotient <1.2 and	60	18,622
	2. Changes in the number of the population >=0% and		
	3. Migration balance >=5% and		
Undergoing ghettoisation	4. Commuting >=15%		
	1. Old-age quotient <1.2 and	59	16,753
	2. Commuting <15%		
	3. Proportion of the Roma >=10%		
In transition	1. Old-age quotient >=1.2 and	158	43,779
	2. Changes in the number of the population <0%	499	128,169
<i>Total</i>		<i>1,020</i>	<i>277,902</i>

Source: The author's own compilation.

Increasingly ageing or working age local population, the latter opting for the status of economic inactivity rather than unemployment, is unable to deliver any measurable economic performance. The majority of land is left uncultivated. As to the animal stock, only small livestock, requiring the least care, are raised. The goods produced by ageing farmers are mostly sent, either as food or cash, to their children living in cities/towns. Land and woodland in the boundary of the villages are cultivated by persons from other settlements.

Ageing and the fact that parents and children live at different places lead to increased demand for social services. Houses mostly lack modern convenience. Although piped water and gas are available, only few households have them installed. The number of new houses and instances of renovation are few. The latter is beyond what owners can afford. Public institutions are no longer operational, with rundown buildings left deserted. Access to services is facilitated by what is called village caretaker services.

In addition to financial constraints, the lack of initiatives and ideas also hamper developments. The lack of initiatives is attributable to the indifference towards the future of village societies with skewed age composition and no young population, while the lack of ideas can be ascribed to lack of stimuli that could generate ideas. The fate that awaits such villages is either slow decline or the development of a new economy based on young settlers that may help villages get out of this settlement category.

Small Villages Undergoing Ghettoisation and Depleting Their Resources

Processes of social and economic self-destruction are discernible in a considerable proportion (5%–8%) of small villages mainly with a high Roma population. This is, however, no longer an ethnic issue, as basket cases or those on the way to becoming such cases outnumber the Roma significantly, and vice versa: not all Roma can be included in this category. An extreme type of poverty carrying the risk of serious social conflicts has emerged in these villages.

One of their most striking characteristics of these small villages is increase in the number of their population. A special outcome of social polarisation that has been accelerating since the 1990s, the concentration and increased reproduction of families on social peripheries are discernible here. Close to 100% of active earners are unemployed. There is neither farming, nor commuting. Main sources of income include benefits, child-raising support, black labour bordering unlawfulness or outright violating the law and the depletion of the resources that are still available. An increasing population, coupled with the lifestyle presented above, leads to the complete degradation of the physical environment. In contrast to traditional small villages, young age composition and a high number of births entail the increased reproduction of problems here.

Holiday Home Villages

Lying either in the proximity of natural waters, more often than not lakes, suitable for pursuing water sports and bathing or in remote dales and hilly woodland, they

are small villages with easy access, where the number of holiday homes or places converted into holiday homes is high. However, provision of accommodation for tourist industry purposes is uncharacteristic.

Such homes are only used at weekends and during school holidays, when the number of population rises sharply. This means that demand for public utilities, retail and other services also increases seasonally. Seasonal demand from weekend residents can, however, be transformed into prolonged and continuous demand.

New settlers contribute to the expansion of the local market and add to intellectual capacity. Educated population emerges, albeit seasonally, in small villages with an ageing population and no skilled younger generations. They bring with them a new system of values, which mainly reflects the uniform lifestyle of a consumer society. However, efforts to revive traditional rural heritage and adopt an ecological approach based on respect for and the protection of nature are becoming increasingly frequent. Paradoxically, urbanites appreciate rural heritage better and set greater store on the preservation or revival of such heritage than does the indigenous population.

Although by no means inevitably, cultural differences may lead to the isolation of holiday home owners from permanent residents. Sharp conflicts may arise between them, which, invariably, clash at a local government level. This development trajectory has been followed by 40-50 small villages.

Villages Providing Tourist Industry Services

The difference between villages providing tourist industry services and holiday home villages is that in the former accommodation for temporary residents is provided at hotels and similar facilities, while in the latter it is temporary residents' own homes that provide accommodation for them. The former depends heavily on the tourist industry market. As no steady supply of tourists is guaranteed, villages providing tourist industry services have to compete for them in the tourist industry market. Tokens of success include:

- reasonably-priced quality services;
- a comprehensive selection of services including catering and various programmes; and
- attractiveness and appeal of villages and the services that they provide.

Accommodation and catering are provided at converted old peasant homes in villages providing tourist industry services. Tourists can familiarise themselves with and try their hand at traditional farming. Excursions are organised to destinations qualifying as natural and cultural heritage. Tourists can also try their hand at handicraft and are offered culinary delights. In exceptional cases, services may be based on some dominant feature, e.g. mountaineering at mountainous locations or watersports along major water bodies (e.g. Lake Balaton), rather than on a classic selection offered by rural tourism.

Only imagination is the limit to the diversity of services. A number of smaller businesses, providing supplementary income rather than hefty profits, can be launched.

The overall impression will only be flawless if the appearance of villages matches the tourist industry good that they offer, i.e. buildings are in good repair and in good taste, public places are well-kept, there are enough parking spaces and a satisfactory number of information check-points are available. Tourist industry entrepreneurs have vested interest in shaping the environment, and by doing so, they directly benefit villages. Also, they can be involved in tourist industry developments. Approximately 50 small villages can be included in the category of villages providing tourist industry services.

'Manorial' Villages

The re-arrangement of land ownership has given rise to an old-new phenomenon in some small villages, where, in effect, land in their boundary has gone to the hands of only a limited number of entrepreneurs again after 50 years. They either own or rent land, one of the most important assets of villages. They employ local residents, seasonally and often illegally, usually as day labourers, paying low wages. This leads to the fossilisation of poverty, in the case of both residents and local governments, or further deepens it.

Monocultural farming in these villages also carries risks. The use of intensive technologies in farms specialising in fructiculture and animal husbandry poses a threat to the environment, while market vulnerability represents economic risks. Currently, there are approximately 90-100 such small villages. As, however, the market requires the concentration of land and production, land in the boundary of an increasing number of small villages is likely to be owned by only a limited number of entrepreneurs.

Suburban Villages and Residential Villages with Good Communications

Small villages lying in the proximity of large cities and axes of innovation, with good communications and a high proportion of commuters, are included in this category. Housing property is much sought-after due to favourable communications. Increased demand entails rising property prices, though they are still below those in cities/towns.

The arrival of the middle classes has brought about a shift in their demographic composition towards younger and more educated social classes, with effective demand boosting local services and the upgrading of housing property.

Active earners, as a rule, commute, but an increasingly large number of persons are employed by local service providers. Villages assume an increasingly urban appearance, with traditional rural houses replaced with more urban ones with park-like gardens. Gated communities and similar complexes have also emerged.

Conflicts may arise between new settlers and the indigenous population due to differences in lifestyles and demand. Thanks to their better education and ability to better represent their interests, the new settlers may soon take over control over villages. This type is not uncommon, with approximately 60 small villages included in this category.

Eco-villages and Villages Offering Alternative Ways of Life

Over the past few years eco-villages have attracted growing attention. Those interested in this type of villages look for a natural environment where eco-technology can be used and human activities and environmental protection match each other perfectly. Small villages are ideal for such purposes whether it is extinct villages that would-be settlers prioritise or existing ones that they intend to turn into independent 'islands'.

New settlers are young urban professionals, who are unfamiliar with rural characteristics or lifestyle and often form an idyllic picture of villages. Approximately 8-10 small villages or village districts belong to this category.

Villages in Transition

Based on the system of indicators selected, the status of approximately 150-160 small villages cannot be identified unambiguously. They represent transition between two types. For instance, there are villages with old age composition which nevertheless grow in population and where immigration is clearly discernible ('in transition-growing'). In others with young age composition most adult members of the population, which, as a result of natural growth, increases, commute. In consequence, these villages are spared ghettoisation ('in transition-under transformation') as supported by data.

Conclusion: A Vision and a Few Proposals for Future Development

Social and economic transformation precipitated new processes in the settlement system. Coupled with global processes, changes in ownership, the structural transformation of the economy and the restoration of the institutions of democracy resulted in a steeper settlement slope, deterioration in living conditions in smaller settlements and strong differentiation between the individual small villages. The process of differentiation led to the evolution of the current 8 (sub)categories of small villages, as was outlined above. In the state socialist era traditional small villages, doomed to extinction, only amounted to approximately half of the stock of small villages. In approximately 20% of them, the switch to market economy triggered favourable processes, which facilitated their revival. In at least 15%, however, the dark side of capitalism, i.e. concentrated poverty and vulnerability, became dominant. In another 15%, transition is still to occur, and the outcome of conflicting trends is still uncertain. The likely fate of small villages and related development needs vary from one type to the next.

The first issue for Hungarian settlement policy to resolve is how it perceives small villages, which seem to permanently account for one-third of the settlement stock. Does it sense only a build-up of problems or can it also identify the opportunities that these villages offer? Can it accept the fact that, under a post-modern system of values, living in small villages is not necessarily disadvantageous and that, provided that certain developments are implemented, small villages can offer society useful and coveted services? If the answer is 'yes', development policy

will have to be adjusted to the development needs of those types of small villages that have emerged in the process of functions currently undergoing change.

Except for villages undergoing ghettoisation, traditional villages and holiday home villages offer alternatives to depopulation, decline and the disappearance of settlement structures. Villages undergoing ghettoisation are clearly an adverse phenomenon, carrying the risk of social explosion. Although neither the 'quiet extinction' of traditional small villages, nor increase in the number of holiday home villages carries a similar threat, the irrevocability of processes may prevent the revival of settlements and their operation as such. Therefore, in these categories objectives include getting out of these very categories and the emergence of a local community that can appreciate local heritage and utilise it in a manner that also preserves it. While acting also as local markets, such communities may be able to create local economies based on local resources, external demand and co-operation between the individual settlements.

Villages providing tourist industry services, manorial, suburban and eco-villages are all linked to the strengthening of some economic function. Tourist industry, agriculture, alternative ways of life, residential functions linked to commuting and their combination may serve as sources of the survival of small villages and decent livelihood for their residents. The products of such functions are also marketable in external markets. In some cases, external markets can even be 'imported' to the individual settlements. The ultimate objective is the local sale of goods and services, as only in this way, i.e. through the inclusion of the image of small villages as added value, can competitiveness be ensured. This holds true for tourist industry services, residential functions and agricultural produce. The most important component of the image of small villages is settlement environment. Thus, a neat spatial layout and an attractive villagelandscape are essential requirements.

With the era of transition over, decision-makers responsible for a new rural policy that accommodates small villages over a long term will have to take into account the following aspects, which have so far been ignored by successive development policies.

1. Small villages ought not to be perceived as some Act of God. Rather, they should be considered as a viable structure which provides for the possibility of a more natural and neighbourly lifestyle, which is in demand to a growing extent and plays an important role in the preservation of natural and cultural heritage. Processes in the more viable types suggest that employment can be provided locally. Furthermore, guarantees for the ability of small villages to develop as places of residence include the availability of public utilities provided in an alternative manner and IT technologies, the operation of which is profitable even at a smaller scale, as well as the fact that natural heritage is becoming a primary consideration in the selection of residence.
2. Due to the small size of villages, both employment and the delivery of services should be part of network operation. When establishing networks, it is essential that both vertical relationships (of the urban and the rural type) and horizontal division of labour between the individual small settlements be taken into account, as this is indeed what can offset the gravitational force of cities/towns.

3. It follows from the nature of small villages that, in order that their profitable operation can be ensured, one person must have more than one job. The underlying reason for this is that only in this way can services be provided locally, and that one single job cannot provide proper livelihood. Financing multiple jobs is difficult under the current system of employment and social security; it is outright impossible in most cases.
4. In order for a demographic balance to be restored in small villages, the characteristics of small villages to be utilised and certain jobs (e.g. those of primary school teachers, general practitioners, representatives of religious denominations, IT-mentors and social workers, etc.), to be filled, it is necessary that student age population and new settlers be retained and attracted respectively. The cornerstone of development policy is encouraging the settlement of innovative young generations through the provision of housing, offering career opportunities and improving the provision of educational and health services. Purposeful preparation for the arrival of immigrants and settlers is needed. Development plans should allow for a potential population that dovetails with local characteristics, rather than current populations, and the anticipated needs of such a population.
5. Short-term programmes ought to be launched within the framework of mainly social and community-related (non-profit) enterprises. In order to do so, the civil subjects of developments must be supported, non-indigenous subjects must be included and the necessary structures must be established. This is a separate task, which will serve as a basis for further development. One of the conditions for development is that local decision-makers and management are satisfactorily prepared. Such preparation includes relying on the experience of other regions, familiarisation with innovative local developments in the original operational setting and special *weltanschauung* which broadens personal perspectives.
6. In addition to encouraging the young to settle in small villages, innovative ability can also be improved through sharing, as personal experience, innovations that can be used locally with those residents of micro-regions who are economically still active and participate in community life. Furthermore, the provision of external information, a network of external assistance and government-aided model programmes may facilitate the development and the successful implementation of viable local initiatives, which are also suitable for the utilisation of external assistance.
7. Types of conflicts, which vary from one small village to the next, must be identified, examined and addressed in the course of development. Conflicts between the indigenous population and tourists as well as entrepreneurs and hired workers may destroy lives, and given the small size of villages, restrict the development of entire settlements and regions.
8. A different approach to the evaluation of the efficiency of development projects must be adopted. Envisaged advantages are more likely to be associated with social and environmental sustainability than with the economy. Accordingly, indicators of this kind should be selected. Considerations for the break-even of

development projects must include, in addition to profitability, impacts on permanent employment and permanent residence as well.

In addition to the above, the most important factor is likely to be time. The reason for this is that, although the issue of small villages is a long-term one, identifying the initial level of their development makes a difference from the aspect of their future development. Any further delay in the formulation of a new rural policy that also takes into account the above aspects will entail further unnecessary human and financial sacrifice.

NOTES

¹ The first half of the 1980s saw the emergence of lively debates over the prevailing situation and future of small villages. Most participants in the debates blamed the rise of the then situation mainly on forced industrialisation, putting agriculture on the back burner, central development policies implemented from top to bottom along the hierarchy of settlements and, within this, the treatment of small villages as components to be phased out. Only few (Enyedi 1980; Beluszky 1988) highlighted the impact of the objective processes attributable to the transformation of the forces of production. They pointed out that such objective processes included the impact of large-scale agrarian production on the rural settlement network shaped by the needs of small holding farming, a sharp fall in labour demand in agriculture, employment restratification, a shift in demand for live labour by farming and industry at the cost of the former and the disruption of peasant communities as a result of the radical transformation of ownership. They also identified easier access to small villages as another objective process. An improved transport system obviated the need for providing basic services locally. Increased demand, however, also urged the establishment of larger facilities providing more specialised services. The development of the transport system was thought to be able to open up new possibilities for residents of small villages. However, they admitted that it also carried risks, as experience confirmed that there was only one-way mobility in villages, i.e. outward or upward mobility (Beluszky 1988).

Ready to sacrifice small villages for modernisation, opinions overemphasising the importance of economies of scale were also voiced in the debates (Kolta 1979). So were those, at the other end of the spectrum, that evoked a hyped image of the village of the 19th century, longing for the return of some rural idyll that had never existed.

² Frequent spin-offs of villages and resultant further break-up of the system of public administration led to the formulation of legal regulations governing the minimum size of local governments, which were missing upon their establishment. Pursuant to the 1994 amendment to the Act on Local Governments, the conditions for the establishment of new townships include a population of at least 300 and local governments suitable for the fulfilment of the statutory duties stipulated by the Act on Local Governments (G.Fekete *et al* 2002).

³ The idea of eco-villages emerged at the first summit of environment protection in Stockholm in 1972. A large number of lectures delivered there pointed out that 'the increased use of natural resources, increasing industrial production, consumption and waste generation' was a one-way model, unsustainable over the long term.

- ⁴ Small villages were classified along various principles on several occasions (Erdei 1940; Kulcsár 1976; Lettrich 1976, Beluszky and Síkos 1982; Tóth 1996; Bajmóczy and Balogh 2002).
- ⁵ The inclusion of settlements in the individual categories occurred in the order of the rows in the table, i.e. eco-villages came first, then holiday home villages, etc. In the case of villages that could have been included in several categories, we opted for the category that was the first in order, and no further examination was carried out. It should be emphasised that the classification based on the above system of indicators is only a hypothesis, providing only estimates of the number of villages in the individual categories, and is, alone, unsuited to accurate classification, which also requires the examination of quality components. In order for an accurate system of classification to be set up, further empirical studies, currently underway, must be conducted. The descriptions of the (sub)categories in this paper provide an analysis of statistical data and summarise the results of field work (interviews).

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PART V

Cross-border Co-operations

Borders and Regional Co-operations

Tamás Hardi

Introduction

Surrounded by the Alps and the Carpathians, the central core of the Carpathian basin is shared among eight countries. The largest, inner part of 93 000 km² is occupied by Hungary. The borders separating the basin among these eight countries are relatively recent formations dating back barely eighty years. Earlier, the whole of the basin had been the territory of the former Kingdom of Hungary. The present borders came into being for the most part after the First World War by the disintegration of Austria-Hungary in 1918 and the peace treaty of Versailles in 1920. These borders lack, barring a few exceptions, any relevant historical precedent for Central and Eastern Europe. Furthermore, they separated what had been for many centuries the unified statehood of Hungary. As a result, Hungary lost two-thirds of its territory to the newly forming states of Czechoslovakia, the Serb, Croat and Slovene Kingdom, better and later known as Yugoslavia, and states that had also existed previously, such as Austria and Romania. The former state structure was segmented through manifold spatial divisions (primarily in an ethnic sense). Along these dividing lines, ethnic groups developed their aspirations for independence or federal structures, which really originated in the 19th century. The new borders drawn by the great powers winning the First World War did not even follow these divisions, thereby sowing the seeds of long-lasting suspicion and conflict and causing countless humiliating situations, mutual population-transfers and tragedies. Hence the borders established after the First World War were redrawn on several occasions on various political grounds in the 20th century. The decades of state socialism kept territorial arrangements ‘frozen’, but certainly did not cure the barely hidden conflicts. These were unleashed after the regime change. Accordingly, the disintegration of Czechoslovakia and Yugoslavia rearranged the map creating new international borders once again. Therefore, the 1990s saw peculiarly ambiguous developments in the region. Territorial disputes, (usually) mutual injuries and conflicts repressed for forty years contributed to strengthening the separating function of borders among nation-states. This, however, coincided exactly with the expansion of the European Union, which raised hopes that future accession will reduce the dividing role of

borders between potential new member states. Consequently, one could simultaneously observe euphoria at being able to cross borders freely, but also severe obstacles to co-operation. In any case, by the end of the 1990s the necessity and significance of cross-border collaborations had become clear. Only from this point on can one witness serious efforts made in this direction. At the beginning of the 21st century, we can observe that borders serve to isolate much less than before given that four of the eight countries in question became member states of the European Union. Thus it is necessary to examine which of the formerly existing relationships can be revived; which are the strong geographical, regional structural units and contacts that have survived the separation and resurfaced as soon as times allowed.

This region presents a complex subject matter for researchers. This is because a pertinent discussion may include topics such as the impact of new, non-historical and unprecedented borders, in some cases drawn without paying heed to geographical or logical considerations, constitutive elements of social spatiality, population, urban networks, economic activities – just to mention a few possibilities. In these countries, attempts to adjust territorial formations and infrastructure to the new circumstances posed by new borders have been rather inadequate in the past decades. Their arrangement still reflects the possibilities and constraints permitted by natural conditions of the whole of the Carpathian basin.

The present study focuses on the co-operative potential between border areas of the Carpathian basin. With the EU accession, many state borders became internal borders from an EU perspective, a fact that presents an opportunity to genuinely promote the development of border areas on a common basis. At the same time, we are perhaps now in a position to eliminate many of the problems caused by the drastic redrawing of borders and by the changes in their functions during the 20th century. For this reason, I will seek to portray the circumstances that led to the establishment of current borders, outline the relevant changes in border functions as well as the ensuing geographical challenges. Finally, I will look at potential solutions thereby also drawing on the experience of border areas in Western Hungary.

Development and Functional Changes of the State Borders in the 20th Century

The process of liberalisation of borders calls for an investigation of relevant positive and negative aspects. A border area is always located on the periphery of any state in a geographical sense. Nonetheless, this suggests that it should develop economically and politically in ways untypical of peripheries showing characteristics common with more central areas. The existence of the border in itself may ensure development in either direction depending on a number of features. One such feature is permeability that is primarily a function of the expressions and tendency of particular political intentions. Also the relative level of development of neighbouring areas across the borders constitutes another important factor.

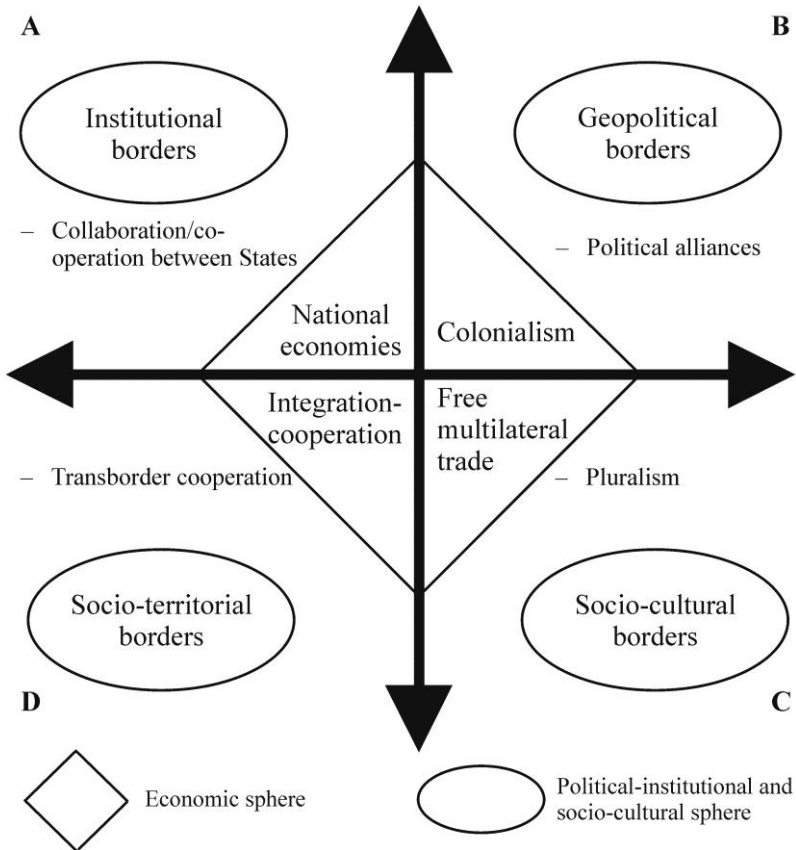
State borders serve to separate, filter and provide links from and between distinct states and systems. Accordingly, a border can influence areas on both sides depending on the dominance of one of the three functional elements (separate, filter or provided links):

- A closed, highly restraining border always promotes processes and characteristics associated with peripheral location. Thus in such a state, areas near the border become peripheries in a geographical, economic, and social sense. Especially so, if isolation is lasting for a longer period or even for decades. A defensive, protectionist policy obstructs investments in economy and infrastructure. With reference to the economies of scale, blocking access to the natural environs of the settlements hinders the development of cohesive markets and infrastructure in the natural environs of towns and economic entities. Furthermore, strict controls at border crossings and in the border areas lead to the impoverishment of the local populations. All these factors undermine the economy, infrastructure and general standards of living in areas near borders. Ultimately, this results in significant migration from the area, the ageing of the population and the worsening of living conditions.
- A filter-like border does not obstruct free movement altogether. However, it acts as any filter. As a result, undesirable phenomena accumulate on the other side, i.e. across the border, causing many problems at least on one side of the border. The reasons for its application are usually quite diverse: divergent economic interests associated with different price-systems, disparities in living standards, i.e. the protection of a higher standard of living. Finally, it may be initiated by defensive instincts of different political and ideological systems. Needless to say, those able to exploit the filter function of such a border can hope for much higher than average profit. As a result, in such cases certain forms of ‘grey’ and ‘black’ business typically strike root: traffic in goods of all types as well as humans emigrating for economic or political reasons. All these phenomena, but also those associated with an increase in control contribute to the social burdens faced by such a border area. No doubt, these differences can promote the development of a legal economy too, if the region possesses a development grant. The question remains, however, whether the overall social balance will ultimately be negative or positive, i.e. whether difficulties or economic gain will dominate.
- In the light of the above definitions, we should define an open border as follows: a border that imposes no restrictions whatsoever on the transactions of businesses, inhabitants or to freight transports already underway. In other words, border crossing is undisturbed regardless of its purpose since control, i.e. permitting or hindering the passing of the border, is not to be decided at the border crossing itself. Rather, a legal framework the exact nature of which depends in turn on the actual function of the border transparently regulates rules of crossing. As long as this function is enforced at the border, there will be no major obstacles to the free movement of individuals, workforce, capital and goods. Furthermore, the relevant regulating administration will remain in the background. Hence, in such cases formerly disadvantaged, marginal areas stand

the best chance to interlink their economies expanding their formerly contained economic spaces in all directions. On the basis of comparative advantages, they can facilitate each other's development and surpass their former underdeveloped, peripheral status. If this approach is adopted, the economic development of border areas will no longer be a function of political-administrative differences, but rather that of complex comparative advantages prevailing in neighbouring areas (Courlet 1988). In such cases, the correct term to use is border region rather than transborder region. The open borders approach gave rise to the concept of 'transbordering economies' (Hansen 1983).

It is important to note, therefore, that border is to be treated less and less as a borderline proportionally to the permeability of the border concerned. Instead, we should think of it as a functional space, border zone that accommodates economic and social connections. Ratti (1997) in his border typology maintains the significance of historical changes to borders, i.e. to what extent borders remain stable in space and time. Accordingly, he illustrates border types with a two-axis model (Figure 29.1).

Figure 29.1 Typology of situations caused by fundamental border problems



Source: Ratti 1997.

The above figure helps to consider the required conditions for development of cross-border co-operations in this region. It can be concluded that most of Hungary's borders should belong to quarter 'A'. This is because in the countries of this region motives of the nation-state and centralised orientation prevailed in the 1990s rather than decentralisation, no matter how much the latter was part of political rhetoric. In addition, one has also witnessed the establishment of several small nation-states, which places the resultant borders in quarter 'B'. By contrast, quarter 'D' represents a truly fruitful and versatile form of cross-border collaboration. Most of the successful co-operations are results of endeavours in this direction, i.e. towards European integration. Following Ratti's logic, the support of such co-operations has helped EU states to advance from quarter 'A' to 'D' - a transformation stimulated by political and economic necessity. Consequently, the peripheries, often-marginal border areas of nation states have become more closely linked. The situation is still different in Hungary's region. Here, collaboration plays a connecting role in virtue of ethnic-national features too and does not serve solely economic and political purposes. This characteristic is also present in Western Europe since some state and ethnic boundaries do not overlap (e.g. Alsace). However, this emphasis in our region is considerably more pronounced. Empirically, the few existing intra-settlement relationships across the Hungarian-Romanian and the Hungarian-Ukrainian borders are usually formed between parties belonging to the same ethnic or language group (Baranyi et al. 1999). Other motives, for instance economic ones, are noticeably underrepresented. At the same time, language and ethnicity play a comparatively lesser role at the Western border. This phenomenon may be traced back to the differences in nation concepts and nation state developments between Western and Eastern Europe (Szűcs 1974, Glatz 2000). Accordingly, it is unfortunately the overt or covert aim of several states in the region to transform ethnic and cultural borders by a shift from quarter 'C' to 'A'. This process does not promote co-operations (although co-operative endeavours form part of the political rhetoric of many states) and may induce further conflicts as several recent examples clearly illustrate.

Having examined the impact of borders on areas in their vicinity, it is worth considering the subject from the perspective of the areas themselves. As we have seen, a border does not necessarily embody a negative potential, i.e. obstacles to the development of the economy and society of a particular area, but can also represent a remarkable potential for growth. Characteristically, the properties of the given border area determine whether difficulties or opportunities for growth manifest themselves more vigorously in the border area. Since geographical location is fundamental, the question really is how the particular area is related and rated in comparison to the core areas of the neighbouring country and those of its own country. What are the inner social and economic processes like? Are they more characteristic of periphery or of developed areas?

Consequently, there are three major categories according to the type of area along the border: periphery meeting periphery, periphery meeting centre and finally the side-by-side existence of two centres. Without doubt, the areas in a relatively more developed position benefit more from the opportunities offered by borders. On the other hand, unfavourably situated, less developed areas lacking external help are

more likely to suffer from detrimental effects of their position. Consequently, any negative phenomenon impacts on society much more forcefully in such areas. All this leaves a mark on their network of relations as well. Evidently, more developed or core areas are more interested in establishing and improving their relationships and in facilitating cross-border traffic and will promote their development at local and national levels alike. As a result, these areas can be expected to concentrate a broad range of economic, institutional and personal contacts. By contrast, in peripheral areas opportunities for developing relationships concern a markedly smaller number of people. With official contacts kept at a minimum, the role of illegal connections becomes more significant and thus also limiting the number of those profiting from such connections.

History and Problems of Borders in the Carpathian Basin

Until the end of The First World War Hungary's territory practically covered the whole of the Carpathian basin. Defeat in the war and interior conflicts caused the collapse of Austria-Hungary at the end of 1918. The Kingdom of Hungary, and the partner-state of Austria, met a similar fate of disintegration. In the peace treaty closing the war, the winning side created new states on the territory of the former Empire and Greater Hungary including Czechoslovakia, the Kingdom of Serbs, Croats and Slovenes, i.e. later to become Yugoslavia. Furthermore, significant territories were carved off by neighbouring states: Austria, Romania, Poland, and Russia. The new borders left Hungary a mere one-third of its original size. The exact borderlines were announced in the peace treaty on 4 June 1920 in Versailles. Interestingly, Hungary was to cede territories even to Austria that was also on the losing side in the war. Special committees determined the final borderline between Austria and Hungary, while in one case a referendum was held¹. As the great powers determined the borders, no serious attention was paid either to the existing geographical network of connections, or to ethnic conditions of the areas concerned. The interest and territorial ambitions of the newly forming and/ or expanding states were given priority, albeit with some restrictions. The development of the region's national entities generated territorial aspirations that were in many cases overlapping or mutually exclusive partly on historical grounds, but often also on the basis of national mythologies. Without exception, all neighbouring states attempted to seize territories larger than what was eventually granted to them. Eventually, no neighbour's ambitions were completely satisfied, while Hungary experienced what amounted to a national tragedy. The following decades, therefore, passed in the shadow of mutual fears and suspicions. Geopolitical differences forged an alliance among neighbouring states; know as the 'Little Entente', which was inherently hostile towards Hungary. As a direct consequence, the newly-created borders began to function as impenetrable barriers sealing off virtually all previously existing connections. Villages were cut off from their arable lands, towns from their railway-stations and denied access to their natural environs. In some cases, the borderline ran across settlements. Many individuals were left with possessions divided on two or more sides of the border. The only exception to this situation was to be found at the Austrian-Hungarian border where special measures regulated the conditions after

the partition, including the free movement of goods and free border crossing between the two sides of the border (Sallai 2003). Although minor adjustments followed in the 1920s, a relative breakthrough only occurred at the onset and then during the Second World War initiated by the Hungarian revisionist movement. The border review was carried out in several steps between autumn 1938 and winter 1941, in two cases by international judiciary arbitration, while in two other cases through military operations². Thus Hungary regained territories from Czechoslovakia, Romania and the disintegrating Yugoslavia at the onset of and during the war.

The armistice of 1945 and the Peace Treaty of Paris in 1947 restored the pre-1938 borders of Hungary with a minor adjustment to the detriment of Hungary. A further modification, though indifferent to Hungary, was the surrender of Sub-Carpathians, in other words the north East of the basin to the Soviet Union, more specifically to the Ukraine.

In the second half of the 20th century, the countries of the Soviet socialist block exercised extremely strict controls of the borders. At the Austrian–Hungarian and the Yugoslav–Hungarian borders minefields were laid in the 1950s. This lasted well into the mid-1960s at the border with Austria. In any case, cross-border contacts became difficult also between friendly socialist states. A change in the function of borders occurred towards the end of the 1960s. A sign of *détente* was the abolition of minefields and the implementation of an electronic border watch system, which remained operational until 1989. The movement of individuals became easier among other socialist states. However, access to Austria remained more difficult and less frequent³.

The disintegration of the Soviet system weakened the separating function of the borders. People began to travel more and identify more with the ‘other side’. With the dissolution of Czechoslovakia, the Soviet Union, and Yugoslavia new states were born. Political changes and especially the creation of new states gave new impetus to nationalist thinking and politics at the beginning of the 1990s. Unfortunately the nationalist revival did not favour integration across the borders. Quite the contrary, it reinforced the isolating function of the border and limited the cross-border activities of local actors. Due to the war in the former Yugoslavia, mines were planted once again on the Southern border of Hungary. Many of these are still lying buried there today. Some parts of the border were inaccessible until 1998 when the Croat government resumed control over areas in Hungary’s neighbourhood. The lack of proper infrastructure designed for use in different times also proved to be a strong influencing factor by hindering the growth of border traffic. The surge of traffic at many borders gave rise to chaotic situations, which in turn became a source of corruption. Border crossing was made difficult due to long queues often lasting hours, arbitrarily and frequently changing regulations (including official and unofficial taxes and fees). At the same time, illegal activities, such as trafficking in goods or humans, also increased.

Towards the end of the 1990s, prior to the European Union accession the transparency and permeability of the borders improved. New border crossing points

and access roads were built. By the turn of the millennium, most countries of the region started to accept the untenability of isolationism.

In addition to the one previous member, Austria, from the Carpathian basin three further countries joined the European Union on 1 May 2004: Hungary, Slovakia and Slovenia. According to official declarations, all three countries should ratify the Schengen Treaty by 2007. This would turn a significant proportion of the borders in the Carpathian basin into internal borders of the European Union. The change will presumably decrease the importance of these borders as well. Towards the end of the decade, another two states are expected to join the EU thus cutting the external borders to two, relatively short stretches between Hungary, the Ukraine and Serbia.

Spatial Problems Caused by State Borders in the Carpathian Basin

As we have seen, borders in this region are relatively recent with their functions frequently changing. Therefore, a fundamental geographical problem of the Carpathian basin is how borders drawn inside an organic spatial unity impact the existing relationships. The significance of the problem is highlighted by the fact that the borderlines usually do not follow already established, organically integrated geographical structures. Quite the contrary, they often cross boundaries between ethnic populations, in settlements, urban agglomerations/catchments areas severing former public administration boundaries, transportation networks and economic connections.

Hence actual borders were set primarily by geopolitical conditions prevailing at the time of 'delimitation' and not by any kind of spatial logic. This makes it particularly important to study cross-border relationships in our region. It is not enough to make simple descriptions; instead we need to continuously search for solutions to the problems caused by state borders. One also needs to ask how to restore freedom of movement and networks of relations for inhabitants living in the proximity of borders.

The opening of the borders and liberalisation of traffic are not sufficient solutions in themselves as the problem is more complex than that:

- Numerous connections were severed, and became one-sided. This relegated many border areas to a peripheral situation. This is typical of areas where the centre of the area was detached from some of the organically integrated area around it, especially when the new centre is hard to access for the population.
- Many towns lost their access to their natural agglomerations/catchments areas and were thus hindered in their subsequent development. Interestingly, with few exceptions, all of Hungary's major towns are situated in the close vicinity of national borders today.
- Consequently, certain economic activities declined where business connections, economic inputs, access to workforce, transportation facilities or markets were lost.
- The rail network had been practically complete by the beginning of the 20th century in the Carpathian basin. Ever since then no major new lines have been constructed. The road network also runs parallel with the rail network. The new borders disconnected vital elements of these networks. When looking at the

geographical structures of Hungary, it is discernible that the new borders left Hungary only with radial lines of transportation, while connecting parts with sub-centres (major towns) were ceded to neighbouring countries. This has had a significant negative impact on the transportation network in Hungary causing a multitude of problems.

- Throughout the past decades, local governmental, infrastructural and sectoral developments were pursued independently from one another. The outcomes of these developments are therefore often incompatible. Moreover, parallel developments took place on either side of the border to replace lost connections. The outcome of such parallel developments is now a potential for increased competition between neighbouring areas upon the re-opening of borders. Consequently, we may expect renewed rivalry among towns as well as among various economic sectors.
- In addition to the problems created directly by the creation of new borders, development strategies of state socialism discriminated against several areas in the vicinity of borders, especially against those at the Austrian–Hungarian border. This only exacerbated negative peripheral tendencies.

In the 1990s, the situation of borders changed fundamentally. In Western, especially in Northwestern areas proximity to the border increased in value through the early influx of FDI and the increase of workforce migration. By contrast, in more peripheral border areas (but especially at the Ukrainian–Hungarian, Romanian–Hungarian, and some Eastern sections of the Slovak–Hungarian borders) effects of their unfavourable position continue to be palpable. In fact, their situation has even worsened with an increase in the proportion of disadvantaged population groups and their discrimination in the job market.

In summary, differences in development levels and directions among border areas grew in the 1990s. Owing to its favourable geographical location between three centres of the region (Vienna, Bratislava, Budapest), the development of the northWestern part of the Carpathian basin accelerated. At the same time, areas on the periphery are underdeveloped on both sides. They were partly or completely unable to recover in the 1990s from the damage caused by the former loss of growth potential. Hence the restoration of cross-border connections is a key requirement for the future growth and decreasing isolation of peripheral areas.

Contacts and Co-operations

For Hungary, the establishment of cooperative relationships is of strategic importance. Relative to the surface of Hungary, the length of borders is considerable. A significant proportion of the population, in comparison to the European Union, inhabits border-zones. Indeed, fourteen out of nineteen counties have common borders with some of the neighbouring states (Enyedi and Horváth 2003).

The demand for cross-border relationships has dated back to the creation of Hungary's current borderlines. Although abruptly cut off, relationships lived on in a different form. Many farmers, for instance, wanted to continue to cultivate their

lands even if they were in a foreign country. A number of enterprises were left without their most basic resources and markets. As a result, the first agreements were signed with neighbouring Austria already in the 1920s in order to regulate the lives of inhabitants near the border and enable crossing between the two countries.

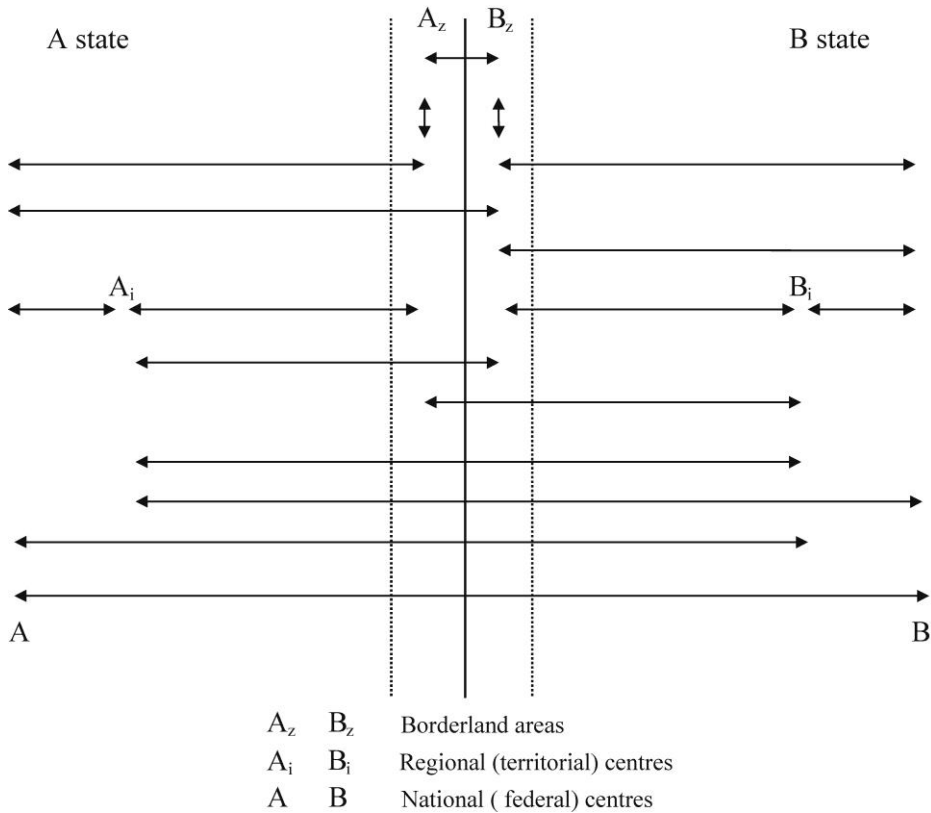
An interesting example is Brennbergbánya, where a mine and all of its operations and management were originally in Hungary. However, the new border cut the mine and the region in two parts between Hungary and Austria. The territory of the mine remained in Hungary (Hungarian territory), but its management was now in Austria. The two states were able to agree that the relevant Hungarian mining authorities would be entitled to overview the respective mining activities in Austria, and workers were free to cross the borders. Agreements of a similar nature served to help harvesting, daily commuting, forestry, etc. (Sallai 2003). During the Second World War the cooperation paused with the German annexation of Austria. Cooperation resumed between 1945–48, until the Communist party leadership of Hungary terminated all such connections. Moreover, in an atmosphere of mistrust, all contacts across the border were practically impossible. At this time (as previously mentioned), a minefield was laid in the proximity of the border. This severity gradually abated towards the end of the 1960s and in the 1970s. In any case, until the disintegration of state socialism actors in border areas were not granted any right to formal, official interactions with the other side. Any contact required state assistance, often by diplomatic means.

From the 1970s, cross-border interactions with neighbouring socialist states became livelier. Inhabitants living near the borders could obtain special permits to cross to the other side and work locally. Working on the other side, in factories or on the fields, became possible for inhabitants of border areas. This was the case, for example in the Slovak–Hungarian border areas, where ethnic Hungarians constituted the majority of the population on both sides of the border. Similarly, agricultural co-operations were launched. Thus machinery could be put to more efficient use in agricultural lands of the two countries for the purposes of harvesting. For example, sugar beet was harvested on one side and processed on the other.

A broad range of cross-border relationships is known in practice. *Figure 29.2* shows one possible categorisation by type of participants. Evidently, the nature and realisation of relationships are substantially influenced by the system of public administration and the degree of autonomy existing at various levels in the participating countries. Institutionalised relationships can be created where geographical units can engage in direct communication without the need for interference or diplomatic assistance of any kind from the political centre. This was the dominant feature of the development of cross-border relations of Hungary in the 1980s.

From the beginning of the 1990s, the contact between Hungary and Austria became particularly intense; supported by aid programmes designed particularly for this border (by Phare CBC and Austrian expertise). The simplest and most straightforward possibility for co-operation existed between settlements at the level of local governments and groups of individuals. It was important to simply get to

Figure 29.2 Types of contacts in border areas



Source: Minghi 1991.

know one another and openly declare the readiness for direct interaction. The most characteristic personal experience in contacts beginning at the end of the 1980s was associated with the opening of previously sealed spaces. The other side began to figure in the consciousness of people living by the border; the ‘other world’ became part of everyday life.

Co-operative projects were usually launched for the optimal and competent realisation of certain programmes and played a key role in the process of growing familiar with joint economic, business and development activities. Meanwhile, a lot of new difficulties (stemming from disparities between institutions, levels of economic development, structures, etc.) arose, which were non-existent or at least not perceived in the course of earlier cultural and social interactions. This was partly due to stereotypes such as ‘the rich uncle’ and ‘the needy relative’, which portrayed difficulties as unchangeable. At present, however, joint preparation for projects, difficulties of financing make it evident to both sides that common interests are at stake and it is not just a question of aid to either of the partners. Certainly all of this presupposes collaboration and joint efforts from all of the parties concerned.

Currently, euroregions constitute the highest level of collaborative structures together with cross-border regional co-operations. Although named differently, the latter also involve interactions of approximately the same type and category as the former. Furthermore, their goals and operational methods are also similar. Euroregions are headed by an international leading committee and a working staff addressing economic, environmental, social and institutional issues 'in the hope of reaching a critical mass of people with the concentration of activities (in an economic sense). This reinforces the cohesion of border areas and attracts private and institutional investors' (Rechnitzer 1999). In today's Hungary, every county that has international borders is a participant in euroregional operations. Moreover, the county of Jász-Nagykun-Szolnok participates in two such cooperations, even though it has no common border with any of the neighbouring countries (Figure 29.3).

Euroregions with Hungarian Participation

Along the borders of Hungary, numerous euroregions or euroregional initiatives were realised in the last few years. The majority of these came to be established after the proclamation of the Madrid Convention in 1997⁴. Another incentive for the launching of joint initiatives was the emergence of programmes specially developed to improve collaboration between the border areas. The Phare CBC programme has been functioning at the Austrian–Hungarian border since 1995. The programme, first limited to the Austrian–Hungarian border, has in the meantime been extended to every other border of Hungary. With the exception of the Austrian–Hungarian border, the financial support is relatively small (EUR 2-3 million/year/border). All the same, the availability of funds has prompted various actors, especially local governments, to declare their intention to participate. According to current figures, fifteen euroregional organisations were formed by 2004 (Table 29.1, Figure 29.3) with a wide range of contributors and differing regional scopes.

Unfortunately, it has to be said that the activities of these organisations are subject to much controversy. Few operate in accordance with their declared aims. Instead, a slowing down of activities in most cases follows initial enthusiasm. More often than not, beyond signatures and initial meetings, no real progress has been made. As already pointed out, these organisations are far too young to be judged too swiftly. In fact, our task is to highlight the causes of setbacks. This can also stimulate ideas and thoughts regarding prospects of further development.

It is important to note that promoting cross-border interactions is not a mandatory task of any local government or actor. As a matter of fact, most participants do their work on a voluntary basis. Accordingly, participating in a euroregion is a different kind of mission than working as a member in a similar committee of the representative assembly of a county. Therefore, the existence of shared interest is the key to the success of such organisations.

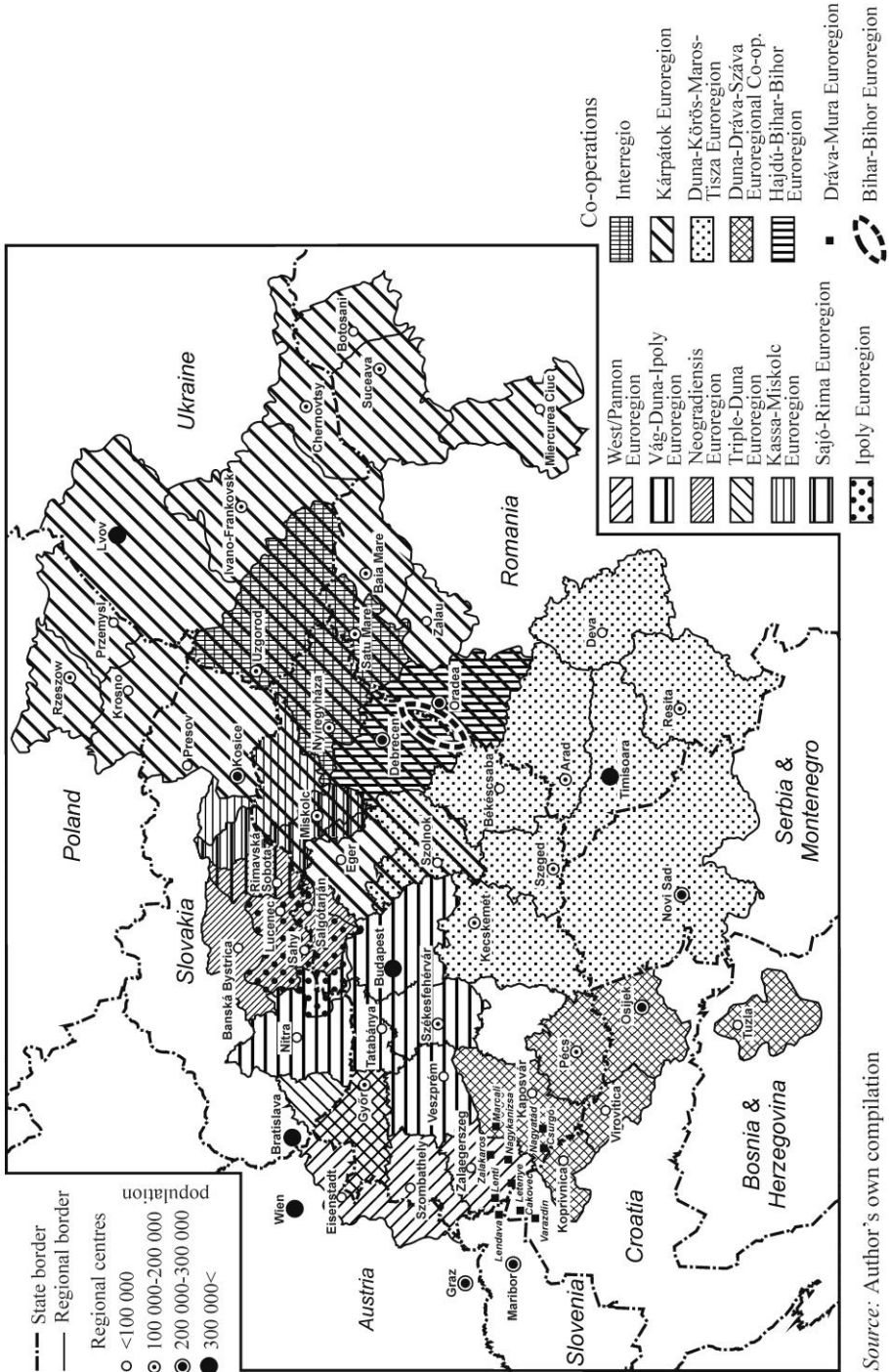
Many of the organisations are established by political fiat. Politicians at county or local governmental levels often decide the territorial scope and influence of such organisations. Consequently, it is not the rationale or logic of geographical space but simply chance that determines the circle of participants.

Table 29.1 Major characteristics of euroregional co-operations along Hungary's borders

Cooperation	Year launched	Participants		Surface area km ²	Population
		Hungarian	Neighbouring		
Carpathian Euroregion	1993	counties	town+district (SK), voivodship (PL), county (UK and RO)	160 000	16 million
Danube–Körös–Maros–Tisza Regional Cooperation	1997	counties	Counties (RO), federal province (YU)	77 243	5.9 million
Danube–Dráva–Száva Euroregional Cooperation	1998	county, town, chamber	county, town, chamber (CRO), canton, town, chamber (BIH)	20 000	1.5 million
West/Nyugat Pannónia Euroregion	1995	county	Province	15 168	1.2 million
Vág–Danube–Ipoly Euroregion	1999	counties	District	24 000	2.8 million
Ipoly Euroregion	1999	settlements	settlements, NGOs	n.a.	440 thousand
Neogradiensis Euroregion	2000	County	Districts and counties(SK)	20 521	1.7 million
Miskolc–Kassa Euroregion	2000	County, town	District, town	14 000	1.47 million
Dráva–Mura Euroregion	2000	Towns	Towns	X	120000
Sajó–Rima Euroregion	2000	Micro-regions	Districts	6000	1 million
Interregio	2000	Counties	County (RO and UK)	23 142	2.25 million
Triple-Danube-area Euroregion	2001	County	Districts	7500	780000
Bihar–Bihar Euroregion	2002	County	County		
Ister–Granum Euroregion	2003	Settlements	Settlements	2000	197000
Danube Euroregion	2003	Settlements	Settlements		

Source: Author's data collection.

Figure 29.3 Cross-border euroregional co-operations with Hungarian participation, 2002



Source: Author's own compilation

In the early years especially, priority was given to size. For instance, both the surface and the population of the Carpathian Euroregion exceed the same figures for Hungary. This Euroregion resembles an Alps-Adriatic type of macro-region rather than a euroregion proper. These excessive dimensions resulted in two main problems. First, it is hard to find shared interests among the members. Two counties with a distance of several hundreds of kilometres between them are unlikely to find common issues, which can be handled properly within their own competence. In addition, in these large euroregions the organisation of a meeting, even of smaller committees, entails an enormous effort in terms of time, money, and organisation skills. This hinders their operation. There can be no doubt that simple territorial expansion does not lead to a corresponding expansion of competence levels. Synergies among the opportunities of members are not sufficient to provide an adequate solution to the problems of such large territorial units. Therefore, it would be optimal to adjust the size of an organisation to the competence levels of the members. The question is not, whether settlements, micro-regions, the counties or rather regions should establish institutional co-operations; as they all have stakes in cross-border relationships. However, territorial expansion needs to be in harmony with real potential in order to protect the mutual interests of the participants. The lack of common interest among the parties is due not only to inadequate territorial scales. It also has to do with insufficient attention to the question; do the participants (larger and smaller organisations) invited to constitutive sessions really need to cooperate?

There has been a growing awareness of the above deficiencies so that organisers began to prefer smaller, functionally interrelated areas. Unfortunately, further pitfalls have become visible in addition to the problem of territorial scale. First, competencies of participants are often noticeably different. The powers enjoyed by decision-makers of Hungarian, Romanian, Croatian, etc. settlements or counties are often quite different. This problem is usually beyond the influence of such organisations as it is dependent on national legislation. Progress has been made, however, with the harmonisation of competencies, a prerequisite of European Union accession.

Another source of collision of competencies is when the levels of participants on the two sides of the borders, joining the organisation, do not correspond. For instance, in the case of the Triple-Danube-area Euroregion, the member that represents Hungary is a county, while districts represent the Slovak side. There are, of course, further examples. Obviously it is quite difficult to manage a bilateral committee in which one of the sides is represented by a secretary of state, while a special committee member leads the other party from a village local government.

Political cycles also leave their mark on bilateral or multilateral organisations. As there are elections at some level almost every year in at least one country represented, there is a backlog of considerable time during which the whole organisation must sit and wait for the results since the following activities will of course depend on them.

Finally, there are problems concerning the funding of such organisations. Relative to the goals, areas and the size of the population affected by these co-

operations, the resources available are generally scarce. Among neighbouring countries, only Slovakia has a special reserve fund accessible to Slovak partners for relevant undertakings in international cooperative organisations. These funds are sufficient for minor objectives such as the preparation of strategy blueprints. In general, however, funding comes from the participants themselves. These amounts can at best cover operating expenses, but rarely permit for instance the preparation of a joint development plan. In any case, several development plans have been already completed on either sides of the euroregion depending on who happened to have access to the necessary funding. This is unfortunate because the fundamental requirement of joint regional management would call for joint planning and the subsequent realisation of a single common plan. However, most of the euroregions do not have independent self-sustaining organisations. Only in cases where such an organisation was in place, together with people in charge who can be held accountable for its operations, could one register significant achievements in the past years.

It is safe to say that organisations created on the basis of clear and shared interests have the best prospects for the future. These organisations can sooner or later also expect to gain access to the necessary financial resources. One of the first examples of such a joint endeavour is the *Centrope* project in the Austrian-Slovak-Hungarian (-Czech) border area which has successfully competed for funds with other initiatives. The aim of this project is to restore Vienna's former catchments area. Formed in autumn 2003, the project spans Southern Moravia, Bratislava and Trnava County, Győr-Moson-Sopron County in Hungary as well as Vienna and the Austrian provinces of Lower-Austria and Burgenland. The activities of the organisation are driven principally by the interests of the Austrian capital. This region may become one of the most dynamic and prosperous cross-border regions in Central and Eastern Europe. Economic and agglomeration studies paved the way to its realisation in practice. Its main focus is to promote economic development, to utilise synergies and to create a single urban area of significant proportions. Most importantly, the project enjoys considerable financial backing from the European Union. This is where a genuine cross-border euroregion may emerge for the first time in the Carpathian basin.

Official and Individual Relations – a Case Study from Western Hungary

Official Relations

Regime change increased the significance of border areas, but not every region could profit from this opportunity to an equal extent. Eastern parts of the country are characterised by micro-regions at the border properly described as the 'periphery of the peripheries' showing a high level of unemployment, villages with rapidly ageing populations, migration and an influx of disadvantaged social groups (Baranyi *et al* 1999). At the same time, border areas in the Western part of the country, barring a few exceptions, are in a more fortunate situation with improving economic opportu-

nities and accelerating development. They constitute one of the most dynamically transforming areas within Hungary. From a social perspective, these changes are responsible for lower unemployment, higher income levels, positive migration indicators and infrastructural improvements. In a joint Austrian–Hungarian study, we looked at how local inhabitants experienced these changes.

The current border divided what had been an organically interdependent area at the beginning of the 20th century. It thus altered an organically integrated network of settlements. The area of Burgenland annexed by Austria was left without a significant urban centre, while Hungarian towns lost much of their dependent environs. Personal contact among individuals survived until 1948. Farmers who owned land in the neighbouring country were allowed to routinely access and cultivate their lands, even on a daily basis. In the 1950s, however, all this came to an end due to political problems. Until the mid-1960s, both individual and official relations remained at a critical low point with landmines sealing off two distinct worlds. From a Hungarian perspective, Burgenland, Austria's Eastern periphery has always played an important role for Western Hungary, and for all of Hungary too, because this border region meant Western influence. Cooperation, therefore, has always been a reasonable and realistic demand. The renewal of contacts started in the 1980s. Any official connection, however, was to remain under the auspices of the Hungarian government. A decree of the (Hungarian) Council of Ministers established the Hungarian–Austrian Committee for Territorial Administration and Planning (MOTTB: Magyar–Osztrák Területrendezési és Tervezési Bizottság) in October 1995. The aim of this organisation was to facilitate interaction, promote information exchange and joint development projects between partners in the border areas. From both sides, representatives of the related ministries were involved in the organisation together with the presidents of the county councils of the respective counties of Hungary (Győr-Moson-Sopron, Vas and Zala) and the heads of provinces of Austria (Burgenland, Lower-Austria, Steiermark and Vienna). The Committee met three times in 1986, 1988 and 1993. For the overview of operational management the Hungarian–Austrian Land Territorial Administration and Planning Sub-Committee was established (MOTTA: Magyar–Osztrák Területrendezési és Tervezési Albizottság), which was comprised of eight specialised working committees (Szörényiné Kukorelli 2000).

Only the regime change, however, made it possible to launch the first co-operation that included only the parties concerned, i.e. counties and regions. Thus the Hungarian–Austrian Border-Area Regional Council was formed in 1992 by Burgenland, Vas and Győr-Moson-Sopron counties, along with Szombathely, Győr, Sopron (every town with county level status). Following a long preparation phase, members of the Regional Council, established the West/Nyugat Pannonia Euroregion consisting of the Austrian province of Burgenland, Vas and Győr-Moson-Sopron counties, and later Zala County in Hungary.

An Opinion Survey Conducted Among Inhabitants

It should be clear from the above that official connections have markedly improved in the past decade. This has resulted, among others, in the creation of the

Szentgotthárd Industrial Park, the Fertőd–Hanság National Park, several common natural reserves, new border-crossing points and other developments.

How does the local population assess these co-operative efforts on both sides of the border? In order to answer this question, a survey of questionnaires and group interviews was conducted in four Hungarian and four Austrian settlements. In response to the questionnaire 90% of the Hungarian respondents claimed that they personally would consider co-operation between Burgenland and Western Hungary feasible. The corresponding figure in Austria was 72.2%. Why do some respondents reject the idea of collaboration? The answer to this question may have partly to do with changing living conditions along the border.

Political changes eliminated most artificial obstructions at the border such as the electronic watch system, the barbed-wire and other forms of a strict border guard systems, i.e. villages inhabited entirely border guards, border zones with special entry permit requirements, etc. In the second half of the 1990s, the border between Austrian and Hungary became once again an important frontier, namely the outer border of the European Union. As a result, illegal migration, trafficking and other crimes proliferated which certainly had an impact on the everyday lives of local inhabitants.

The population, which formerly (especially in the first half of the century) was closely linked by a shared territorial identity (Vas, Órség, etc.), although always had a different ethnic identity, was separated by a strong border for forty years. The effect of this separation was exacerbated by official propaganda suggesting that the other side is somehow different. Nowadays, it is clear that the original identity has been changed. People hold different features important for defining their identities. Today, one category dominates, namely that of nationality (Austrian or Hungarian) instead of ethnicity.

The cognitive distance between populations on the two sides of the border manifests itself in the characteristics they rely on in order to differentiate themselves from the other side. The primary purpose of the interviews conducted with inhabitants of the respective settlements was to throw light on the nature of the relationships between 'us' and 'them'. The relevance of differentiating motives depends on the knowledge available to populations about the other group, their own group characteristics, including points such as religion, language, economic situation, culture, the homogeneity of the group, and finally, whether the two groups are competing or have common goals.

The border was a significant obstacle to getting to know each other before the 1990s. There was '*another world*' on the other side of the Iron Curtain. Due to severe restrictions on travelling abroad, Hungarians had few opportunities to maintain foreign contacts. The relationships that did exist nevertheless developed mainly in Hungary through visits by Austrian tourists, officially organised youth and student exchanges or official contacts of village-inhabitants. The result was a rather illusory image of the Western world among Hungarians. Needless to say, tourists typically showed a higher standard of living than they enjoyed in everyday life by spending and behaving more freely. Meanwhile, Hungarian visitors on exchange trips were also 'indulged in luxury' as was claimed by an organiser of such trips

from Szentgotthárd. As a result, the Hungarian population experienced a particularly acute shock when confronted with realities after the opening of the borders.

‘We thought they would share our happiness that the political changes were underway, and the development of a free country was about to begin. I had to understand, however, that democracy is a very intricate thing, and they began to be worried about their own values. So when the border was opened (i.e. the new border crossing point), that is when we finished the construction of the bridge on 26 May 1990, and we received them, we were informed informally by the police that the Greens (in Austria) plan to chain themselves to the bridge railings in order to hinder any crossing into Austria. They didn’t really have a favourable opinion of us; they thought we were an uncivilised and different world. Not much was written of this in the papers, and few actually know about these things...’

Since the opening of the border, however, the intensity of relationships has become more vivid. A much more realistic picture has been formed of each other and each other’s lives.

The number of observable discrepancies as well as group-characteristics such as language, religion, economic conditions and culture shapes how differences are experienced. With the exception of religion, there exist noticeable differences in terms of all these features. Above all, differences in economic and cultural opportunities manifest themselves most powerfully. We observed the strongest determination to come to terms with and bridge the gap between the two groups in regards to language differences. In connection with this, it is interesting that inhabitants on the Austrian side are commonly thought of as German-speaking in Hungarian settlements. Only accounts by elder generations revealed that Hungarian used to be the main vehicle of communication in neighbouring settlements. Language was addressed, however, as a major hindrance, for example, to the future prospects of younger generations and a cause of present conflicts. This is the first point focused on by many stereotypes:

‘If you go into a shop, at the very least you would say “Danke!” But they would never say “Köszönöm”.’⁵

‘Now that the Austrians are guarding the border. If you stop, they would come and speak to you in Hungarian using the informal voice “Where are you going?” - he can address his mates like that but not me! This is their knowledge of Hungarian, and that is just about it.’ ‘When we cross over, we try to speak their language, but they do not see it as their task when they are here.’

The degree of separation from the other group depends partly on the homogeneity of one’s own group. The more homogenous the group, the stronger the assimilation effect on group-members and hence the more pronounced the separation from the other group. Nowadays, the homogeneity of the population

formerly living in enclosed worlds is rapidly disintegrating. However, with the opening up of the border, Austrian and Hungarian shopping tourism do not benefit all social groups to an equal extent. Economic opportunities associated with the border vicinity differentiate the Hungarian population depending on how much they stand to profit and what 'social costs' they incur. As for the latter, high prices and difficulties of shopping were mentioned practically in every discussion. Clearly, those benefiting from the changes call for fewer administrative hindrances, as they need to cross the border more frequently. They are also more likely to learn the language while the disadvantaged groups (blue-collar workers, the elderly, etc.) are less ready to do so.

'Those getting the money are happy.' 'Prices are high because of the Austrians.'

Economically successful groups are evidently concerned about migrants from other parts of the country who also want to share in the success:

'Today everybody can start an enterprise in just about any area. The owner of the Turkish restaurant came here from Salgótarján. What the hell is he doing over here, I wonder?'

The extent of cooperation and competition between neighbouring populations constitutes another important factor. When groups are functionally competing with one another, their shared identity is more pronounced than as if they had common goals. Since the opening of the border, more and more areas of competition have emerged. Characteristically, many Hungarians have experienced their disadvantaged economic position in comparison with Austrian shopping tourists in their own country as a competitive situation. (Here I refer to opinions such as: '...we have to fight to be accepted', i.e. Hungarian customers by Hungarian shopkeepers.) From an Austrian point of view, competition is most affected by the threat of the Hungarian workforce in Austria. This competition gives rise to stereotypes. These are the crudest when it comes to the two topics already discussed (shopping and employment): Austrians would talk about '*the lazy Hungarian*' and while a respondent from Fertőd compared the professional expertise of Austrians and Hungarians; using rather coarse wording, he argued that Hungarian workmanship is superior to Austrian workmanship. At the same time, the stereotypes about shopping are well captured in the following quotes:

'They put up a sign "ungarians, don't steal", though we could also write the same, as they eat the bread rolls on the way to the cashier.' 'The Austrian woman fingers all the bread and finally takes just one.' 'They get so loud in the shop; they would never do that at home!'

Reports on connections and co-operative activities offered a very different picture. People standing in some kind of direct contact with their neighbourhood tended almost instinctively to calm those heaping on the usual stereotypes. In such

cases, the magic phrase, ‘You shouldn’t generalise’ was often uttered, which indeed re-established harmony in the group. When such respondents expressed their thoughts of the other side, they emphasised similarities rather than stereotypes in their formulations despite language difficulties. An interesting phenomenon was when a person generalised about Austrians and then proceeded to give an anecdote about a personal contact with an Austrian or Austrians. In such situations, the speaker often contradicted his own *general* statements while describing Austrians:

‘We should not include the people in Burgenland – they are all peasants. They may look down on us Hungarians, although we surpass them in culture and manners, even if we have less money. But now that I have the opportunity, I should also mention that our pensioners’ club has contacts in Austria. And these Austrians are not condescending towards us at all. This I must confess honestly as there is friendship among us, and they help us, but not like they are helping poor relatives with handouts.’

In other words, most stereotypes are abandoned as soon as one considers one’s personal experience based on everyday contacts rather than view of the other side as a homogenous mass. To put it differently, the smaller the distance, the more sophisticated one’s opinions turn out to be. So when somebody was mentioning that Austrians eat up the rolls on way to the cashier, he quickly added ‘... but not here, over there in Sopron.’

In the final analysis, an open border does not instantly entail less separation between ‘we’ and ‘they’ than a closed one. Clearly, it also poses risks that may contribute to renewed separation caused by the rivalry between the two groups as well as the cost-benefit calculation of being the member of the group. Both may contribute to a widening gap between the two groups, whereas co-operations using the opportunities provided by an easily passable border may lessen the distance, even if it cannot eliminate it altogether. The technically closed border sealed off groups, which were an organically interdependent and divided territory, and was ethnically ‘transitory’ in terms of its identity. Today middle-aged generations appear to be most prone to separation. The elder generation talked of co-operation on a daily basis, obviously referring to what used to be once an open border. The same views were expressed by native German speakers who haven’t linguistic problems in transborder contact. They are joined by younger generations who are also getting nearer towards ‘them’ with the hope of economic profit and on the basis of daily interaction and mutual collaboration.

Conclusion

In the course of this study, I set out to illustrate how isolating borders and changes in the function of borders have an impact on cut-off areas and their scope of interaction. It has been found that there is a significant correlation between the characteristics of the border and those of the border area, on the one hand, and on the other the development and the likelihood of success of co-operation endeavours.

These phenomena reach far beyond prevailing administrative and financial conditions that can only partly influence these processes. In Hungary's region, major characteristics of borders have undergone tremendous changes in the past decade. These changes partly facilitated, and hindered the cooperation of border areas, and the formation of common border areas. Some of the relevant characteristics are related to the regulative and infrastructural framework. However, some are more deeply rooted in matters of ethnicity and conceptions of nationhood. Furthermore, the peripheral location of a given border area can also play an important role. While the problems mentioned in such areas result in the development of closed, separating type of national borders, in other areas borders change in accordance with an open border concept like that promoted by the European Union. A degree of disparity is already observable in our region, which will no doubt become more intense with the full implementation of the Schengen Treaty. The enforcement of strict border regimes, the ensuing sealing effect of borders will not encourage further co-operations in either quantitative or qualitative terms. A positive scenario for Hungary would envisage the accession of several of the neighbouring states into the EU, while a pessimistic one foresees nationalistic governments seizing power in countries left out of the EU accession. These could aim at imposing stricter border controls, or possibly even a change of the borders. This would put an end to already existing co-operations, and would contribute to a further marginalisation of the Eastern and Southern border areas of Hungary.

There are considerable differences within Hungary itself from one stretch of border to another. While at most of the Hungarian borders, the intensity of co-operations is rather low, connections in Western areas are more direct and better established. Interaction with other former socialist countries was encumbered by the lack of experience and expertise, differences in administration systems and frequently by open disagreements too. This explanation is, however, partly contradicted by the fact that Western borders were similarly closed and personal contacts were scarce for decades. In any case, economic growth in the region has triggered an increasing number of interactions. The rising number of contacts, predominantly in connection with shopping activities and work, contribute to restoring a former scope of movement enjoyed by those living close to the borders and newly opened border-crossing points. Intensifying competition is a potential threat that could lead to more and more and increasingly crude stereotypes differentiating between 'us' and 'them'. This can only be remedied through a rich network and system of interactions and contacts. The growing number and intensity of interactions at the level of the population lays the groundwork for bilateral official initiatives, which in turn can result in genuine cross-border co-operations, and thus ultimately a region without borders.

The 1990s saw fundamental changes in the life of the population inhabiting areas near borders. Border conflicts originating in the 20th century resurfaced in the last decade of the century. At the same time, cross-border connections and regions, which began to form during the transition process, resulted in answers to problems in the 21st century that were caused by the state borders in the 20th century. In spite of indubitable difficulties, some promising processes have been started along the borders during the current decade. These processes can be expected to exert a

positive impact on the whole of the Carpathian basin contributing to a recovery from the severe damage caused by armed conflicts and totalitarian systems of the 20th century.

NOTES

- ¹ In the case of Sopron and its environs, a referendum was held on 14 December 1921.
- ² The Treaty of Munich under the auspices of the English, Italian, French and German governments forced Czechoslovakia and Hungary to start negotiations in order to adjust their state borders in line with existing ethnic compositions of the time. Partly because of significant differences of ethnic boundaries and also due to the complexity of the network of especially larger settlements the bilateral negotiations finally reached a deadlock. Subsequently, an international judiciary body issued a ruling concerning new borderlines that rejoined areas with Hungarian majority to Hungary. The tribunal was formed with German and Italian support as the French and the English failed to underwrite the ruling, although the Treaty of Munich would have required them to do so. The second judiciary decision dealt with the Hungarian-Romanian border. Due to the role of fascist states in the decisions, these judiciary bodies haven't any legitimacy.
- ³ During the decades of state socialism, an 'average' citizen could travel every three years to the West. The permission to travel presupposed a series of rigorous administrative checks. At the same time, for Austrian citizens the visa requirement was lifted, so they could freely enter Hungary any time.
- ⁴ European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities.
- ⁵ Translator's note: 'Danke' and 'Köszönöm' both mean thank you in German and Hungarian, respectively.

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Hungarian–Romanian and Hungarian–Ukrainian Bilateral Cross-border Relations in the Period of Transition¹

Béla Baranyi, István Balcsók and László Dancs

Introduction

The role and importance of cross-border cooperations and the reinterpretation of the functions of national borders have been the subject of growing interest not only for regional scientists, but also for makers of European regional policies, particularly so in light of ongoing processes of European integration. This is mainly because issues rooted in the past hinder European cooperation and integration from reaching beyond national borders in Central and Eastern Europe. In other words, borderlands – including areas and settlements located near the Hungarian–Romanian and Hungarian–Ukrainian borders – still fraught with unresolved economic, social and ethnic problems pose a serious obstacle to globalisation and integration. In general, the system change in the late 1980s and early 1990s offered more favourable conditions for regional collaboration in the Carpathian Basin. A milder political climate contributed to alleviating the rigid isolating function of national borders and raised the possibility of broadening cross-border relations in the region despite the fact that the legacy of the past as well as some new problems continue to hamper cooperation (Baranyi *et al* 2004).

At the same time, expectations foreseeing the rapid development of cross-border relations have been disappointed. Economic decline in the wake of the system change impacted more strongly on borderland regions in Hungary, Romania, and the Ukraine the development of which had in any case been restricted during the decades of state socialism. Long-lasting economic recession led to the closure of a host of production sites which had been typically operated as subsidiaries of companies located in large towns. This in turn resulted in high unemployment in these areas increased further by the return of laid-off commuters previously forced to work in large towns due to the lack of local jobs. The problems were intensified by the disappearance of Comecon co-operations as well.² Moreover, partly on account of geographical distance, but mainly due to their economic-social

disadvantages (lopsided economic structure based principally on agriculture, underdeveloped infrastructural and transportation systems, high unemployment, underqualified workforce, etc.) these areas failed to attract Western FDI. Under such circumstances, it is hardly surprising that cross-border relationships started to develop at a fairly modest pace.

Hungary's accession to the European Union on 1 May 2004 posed a further challenge to the slowly developing Hungarian–Romanian and Hungarian–Ukrainian co-operations. Romania was left out of the first round of Eastern enlargement and is not expected to become a full member state before 2007. The Ukraine will probably require many years of preparation even to obtain associated status in the EU. Since Hungary's Eastern borders will now also be the more heavily guarded external borders of the European Union, stricter border controls (abolition of special 'borderland permits' for inhabitants of near-border settlements, itemised customs and document control, mandatory visa for Ukrainian citizens, etc.) are likely to impact negatively on cross-border co-operations. At the same time, accession will certainly exert a positive influence as well by making more funding available for the development of cross-border co-operations.

In light of these developments, examining Hungarian–Romanian and Hungarian–Ukrainian borderland relationships is a worthwhile task of current relevance. This particular borderland, traditionally at the intersection of peripheral areas, finds itself in a unique situation. The development of these regions emerging from a long period of isolation has markedly differed from that of other border areas in Hungary. In addition, as already mentioned, the relevant border stretches now also serve as the Eastern frontier of the European Union. This presents new challenges as well as opportunities for local inhabitants. This study endeavours to portray important characteristics of the development of Hungarian–Romanian and Hungarian–Ukrainian cross-border co-operations since the beginnings of the system change in 1989 while also considering complex changes taking place more recently.

Historical Background

For centuries, regions of what is the Hungarian–Romanian and Hungarian–Ukrainian borderland today constituted integral units of Greater Hungary. After the end of First World War, the defeated Austro-Hungarian Monarchy fell into pieces in 1918–1919 allowing formerly established ethnic movements of the empire to emerge victorious. All new borders of Hungary were determined in accordance with the Peace Treaty signed on 4 June 1920 in the Grand Trianon Palace of Versailles. This left its mark on the future development of the areas in question. The new borders were drawn without paying heed to prevailing ethnic, economic or infrastructural conditions at the time. As a result, a significant number of Hungarians were separated from their motherland remaining on foreign territory including that of Romania and Transcarpathia (now belonging to the Ukraine). Post-war neighbourly relations were characterised predominantly by mutual hostility. This undermined contacts among formerly integrated areas, settlements, and population groups. It also severed links between large towns located in these territories

(Ungvár, Munkács, Beregszász, Szatmárnémeti, Nagyvárad, Arad, Temesvár) and their agglomeration zones which had remained with Hungary.

Never belonging to Hungary's most dynamically developing regions, these territories – which (as remarked above) had formerly constituted organic units and were now separated by borders drawn in the Trianon Peace Treaty – became multiply disadvantaged external peripheries in the borderland, or so-called 'peripheries of the peripheries' (Tóth 1988; Ruttkay 1995; Hardy 2000). They are characterised to this day by underdeveloped infrastructure, poor accessibility, high unemployment, large Roma population and unfavourable natural conditions (low-yield soil, exposure to floods and high internal water levels). Therefore, it is no coincidence that Hungarian–Romanian and Hungarian–Ukrainian border areas have been ranked as backward regions ever since the re-drawing of borders. Together, they still form one of Hungary's largest and most disadvantaged areas today (Enyedi 1996).

The Hungarian–Romanian and the Hungarian–Ukrainian border regions, although both in a similarly disadvantaged position, do not look back on identical development trajectories in terms of peripheralisation and cross-border relationships. What is now the *Hungarian–Ukrainian borderland* was classified as underdeveloped and unquestionably peripheral even when it formed part of Greater Hungary. Thus areas located along the new borders in Hungary, Eastern Slovakia, the Ukraine, and partly in Romania too, became 'double peripheries' (Rechnitzer 1999). Even in a broader context, however, i.e. when looking at the large region East of Hungary, it is possible to discern the outlines of a peripheral macro-region comprising as many as five Eastern European countries (Poland, Slovakia, Hungary, Romania and the Ukraine) (Gorzela 1998; Rechnitzer 1999; Illés 2002).

Problems of the Hungarian–Ukrainian borderland were only exacerbated by a series of border changes. This region is located along a stretch of the border that was more frequently altered than most other borders in Central and Eastern Europe in the course of the twentieth century. Kárpátalja (Transcarpathia, formerly known as Ruthenia) belonging to Hungary until 1920, was first assigned to Czechoslovakia, only to be re-annexed by Hungary in 1939–1944. After this short period, it became part of the Soviet Union and then finally a part of the independent Ukraine after the dissolution of the Soviet Union in 1991. These changes have of course left an indelible mark on the development, substance and quality of cross-border relationships. During the time of socialism, this border constituted a segment of the Western frontier of the Soviet Union rigorously guarded for military and other reasons. An electronic border watch system was put in place on the Soviet side. Any form of cross-border interaction was to be conducted under strictest surveillance. The crossing of the border was hindered through a number of further bureaucratic measures as well.

Although its development has been quite different ever since its formation, the *Hungarian–Romanian borderland* has experienced many conflicts as well. Imposing a significant loss of territory and that of a population of nearly two million Hungarians, the Trianon Treaty was responsible for a Hungarian–Romanian relationship which was fraught with lasting tensions, possibly more so than

Hungary's coexistence with any of the new neighbouring states. Due to disputes and other measures further increasing ethnically-rooted tensions, the atmosphere of mutual distrust failed to improve in coming decades. Elevated principles of state socialism, declaring 'Friendship and Brotherhood', remained empty slogans. National borders functioned in essence as walls until the early 1990s making both meaningful co-operation and everyday relationships practically impossible.

Starting in the latter half of the 1980s, however, Central and Eastern Europe began to experience the effects of a political *détente*. Further, the spectacular collapse of state socialism created a renewed potential for the development of cross-border relations radically altering the nature of relationships in the Hungarian–Romanian and Hungarian–Ukrainian borderlands. It became easier to cross borders, 'world passports' (valid to any country in the world) were issued, new border crossing points were set up and special 'borderland permits' were issued to encourage contacts between populations living in borderland areas on both sides.³ As a result, cross-border co-operations experienced something of a revival, especially at the level of individual citizens, while large scale economic co-operations unfolded at a more modest pace.

Hungary's accession to the European Union created a relatively new situation for the Hungarian–Ukrainian and the Hungarian–Romanian borderland once again. Since in all likelihood Romania will not become an EU member state before 2007 and the Ukraine cannot hope for membership in the near future, the two national borders will also function as borders of the European Union. This also involves the introduction of the strict Schengen border regime. For the time being, this will exert an unfavourable impact on co-operations along the borders, especially as regards Hungarian–Romanian and inter-ethnic contacts.

Main Characteristics of Hungarian–Romanian and Hungarian–Ukrainian Cross-border Relationships

Relationships at the National Level

Considerable progress was made in the area of cross-border relationships with both Romania and the Soviet Union in the late twentieth century. Following the dissolution of the latter, the Ukraine became the new neighbour state to Hungary's East in 1991. Hungarian–Romanian and Hungarian–Ukrainian cross-border relations are regulated by a number of bilateral agreements at the national level. The so-called inter-state treaties are especially important as they have the most serious influence on Hungarian–Romanian and Hungarian–Ukrainian relations.

The Hungarian–Romanian Bilateral Treaty (Act 47, 1997) orders the establishment of inter-governmental special committees (committee for co-operation in minority affairs; economic, commercial, tourism co-operation committee; committee for co-operation in infrastructure, transportation, water and environmental management; etc.) in order to shape and monitor co-operation between Hungary and Romania.

The Hungarian–Ukrainian bilateral treaty (the full title of which was ‘Treaty between the Republic of Hungary and the Ukraine on Understanding, Cooperation and Good Neighbourhood’) was signed in 1991 in Kiev (ratified in 1992 by the Ukrainian and in 1993 by the Hungarian Parliaments). The terms of the treaty specify that the contracting parties will promote cross-border co-operation at all levels, strive to create the necessary conditions for good neighbourly and friendly coexistence of their populace, and assist in all ways possible the improvement of co-operations among their citizens at individual, state, social and other organisational levels. Similarly to the Hungarian–Romanian Bilateral Treaty, this treaty also established a number of special committees, some of which are still functioning today.

In addition to these bilateral treaties, there are many other Hungarian–Ukrainian and Hungarian–Romanian agreements in effect, for instance in the field of water and environmental management. In the latter areas it seems especially important to expand co-operations between these states. This has become acutely evident in the light of recent environmental problems including massive floods and a cyanide spill that devastated a vast proportion of fish populations in the Tisza, its tributary and adjacent waters affecting all three nations.

Although not a bilateral agreement, it is worth mentioning the 2001/62 act on ethnic Hungarians living in neighbouring states which is commonly referred to as the ‘*Status Law*’. This act offers special benefits in the areas of health care, transportation and employment to non-citizen, ethnic Hungarians. This piece of legislation is particularly significant as the peace treaties concluded after the First World War, in addition to reducing Hungary to one-third of its former size, re-drew borders without paying heed to the territorial distribution of nationalities prevailing at the time. Consequently, a considerable number of ethnic Hungarians still live beyond the 1920 borders today (among others, in Romania and the Ukraine). It is not surprising, therefore, that ‘Hungarian–Hungarian’ co-operations play a key role in shaping Hungary’s relations to neighbouring states.

Cross-border co-operations are also strongly influenced at the national level by changes associated with the Euro-Atlantic integration process. However, the respective situation of the three states markedly differ from one another in this regard. Undoubtedly, Hungary is in the most favourable position since it became a member state of the European Union on 1 May 2004. Romania, on the other hand, was left out of the first wave of enlargement. It will continue to enjoy the status of associate member state – acquired in 1993 – at least until 2007. Despite considerable progress in the area of legal adjustment in Romania, country reports issued by the Commission have repeatedly called attention to areas where no significant improvement has been achieved (e.g. application of the partnership principle, monitoring, evaluation and regional statistical systems, etc.) The Ukraine has only made the first few steps in the Euro-Atlantic integration process, and practically nothing of EU law has been adopted so far.

Euro-regional, Inter-regional and Local Governmental Co-operations

In accordance with EU practice, NUTS regions were set up both in Hungary and Romania. This has not been done in the Ukraine which is not surprising as the Ukraine still awaits the status of associate member. It follows that issues concerning relationships among NUTS 2 regions can only be addressed meaningfully in the case of Hungary and Romania. At the same time, it must be emphasised that these regions are still deprived of genuine administrative functions. Given that NUTS 2 regions are recent formations of a predominantly non-political character – lacking substantial public administration and local governmental functions – they do not figure as independent actors in the political life of either state, let alone on the international stage. Therefore, cross-border relationships at this level are still in a rudimentary state. Cooperations have barely taken shape, only first contacts have been made.

Relations of so-called micro-regions⁴ are fairly difficult to map. This is because – unlike Hungary – Romania and the Ukraine have failed to give official recognition to bottom-up type micro-regional associations and micro-regional planning/statistical territorial units or acknowledge them as constituting a separate level of regional development. Districts in the Ukraine are entrusted with specific public administrative functions. By contrast, the institutional framework for micro-regions and micro-regional settlement networks are still to take shape both in Romania and in the Ukraine. Given this state of affairs, micro-regions in Hungary (whether bottom-up⁵ or statistically defined by the Central Statistical Office) seeking partners in neighbouring countries need to approach partners at higher (i.e. county) or lower (i.e. settlement, local government) levels. For this reason, i.e. due to the lack of an ‘official’ micro-regional level, only micro-regional organisations are in a position from the Hungarian side to establish contacts and develop cooperational frameworks. The number of economic, social, cultural, infrastructural, environmental, ‘town-twinning,’ etc. cooperations launched by micro-regional organisations with Romanian partners in the Hungarian borderland is well over twenty by now. In comparison, the number of such partnerships is minimal in the Ukraine even when taking into account the difference in the length of respective borders.

The role and autonomy of counties⁶ (*NUTS 3*) is more restricted in Romania and the Ukraine, both of which are strongly centralised politically, than in Hungary. Nevertheless, cross-border co-operations at the level of counties – which have existed in all three countries for a long time – are more extensive than relationships of regions formed only very recently. In Hungary, the first ‘twin-county’ and ‘associated county’ relationships were established well before the system change. They were established somewhat later in Romania and the Ukraine given a more pronounced tendency towards isolation and state centralisation in these countries. In developing county-level partnerships, counties have sought contacts beyond neighbouring countries sometimes even looking overseas. For instance, the 15 partner-counties of Szabolcs-Szatmár-Bereg are located among others in Denmark, Russia, the Netherlands, Germany and even the USA.

Cross-border relationships of counties have been increasingly characterised by the ambition to attract attention to the county and the region concerned. Cultural,

educational and youth co-operations continue to be the most successful, although partner-county relationships include more and more economic ventures as well as entrepreneurial and business contacts. Significant distances and correspondingly high costs place limitations on the development of partnerships in a few cases, for instance when it comes to contacts with Japan, the USA, and China. The most vivid and well-functioning relationships can be found among neighbouring or nearby counties.

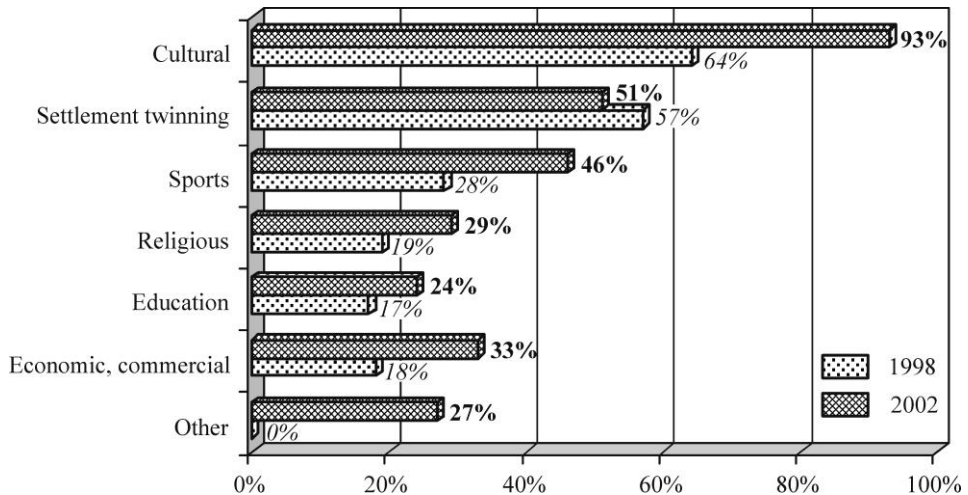
Researchers of cross-border relations rightly recognised after the system change that efficient cross-border structures and systems need to be established in Central and Eastern Europe as well. The significance of inter-regional structures – as appropriately formulated by one author – lies principally in the fact that the establishment and relatively fast development of inter-regional organisations in borderlands can give political weight to these areas and can contribute to the development of new territorial structures in Europe (Scott 1997). In addition to bilateral co-operations, neighbouring counties in the areas studied are also connected as members of Euro-regions and inter-regional organisations. This is because the majority of Euro-regions along Hungary's Eastern border are made up of counties. Two large Euro-regions are located along the Hungarian–Romanian border: the Carpathian and the Danube–Körös–Maros–Tisza (DKMT) Euro-regions (see 29.3 Figure in Hardi 2005). These are quite different in terms of how they were established and have subsequently developed. Formed in 1993, the Carpathian Euro-region includes today member regions in five countries (Poland, Hungary, Slovakia, Romania and the Ukraine) and is the only one also extending to the Hungarian–Ukrainian border area. This vast inter-regional organisation – quite unlike the Danube–Körös–Maros–Tisza Euro-region established in 1997 – did not come into being as the result of a spontaneous, bottom-up local initiative. Instead, its establishment was motivated by broader political objectives and hence it has always functioned within a framework defined 'from above'. Moreover, the Danube–Körös–Maros–Tisza Euro-region establishes links among areas in the borderland of Southeast Hungary which were formerly situated within the same state, namely Austria-Hungary. In other words, these areas traditionally formed part of an organic and relatively more developed territorial unity and are linked by a shared historical past of many centuries. The Carpathian Euro-region, by contrast, is a characteristically 'multinational' formation.

Although both Euro-regions deserve praise for raising awareness of the advantages of mutually advantageous partnerships, due to a number of reasons neither of them have been able to meet initial objectives formulated at the outset. The overall record of these two large Euro-regions is not particularly impressive. They have failed to make a positive impact at the level of individual citizens living in these areas. The development of genuinely multilateral co-operations has been hindered first and foremost by the sheer size of these regions: the Danube–Körös–Maros–Tisza and the Carpathian Euro-regions measure 77 000 km² and 161 000 km² with populations of six and sixteen million people, respectively. In addition to the issue of size, co-operation is also obstructed by historical, territorial, ethnic and other problems inherited from the past. This is particularly true in the Carpathian Euro-region. Having recognised this, local actors have been considering the

possibility of smaller and hence more effective euro-regional partnerships. In fact, these ideas have already been partly put into practice so that today there are three inter-regional organisations operating at county or micro-regional levels including the Interregio, the Hajdú-Bihar-Bihar Euro-region as well as the Bihar-Bihar Euro-region formed by two settlement associations (one Hungarian and one Romanian along the Bihar border) (Baranyi 2003).

Following the system change, more and more settlements in Eastern Hungarian counties have become aware of the potential inherent in twin-town relationships and improved cross-border cooperations. Clearly, county seats have the most numerous and many-sided co-operations (e.g. Debrecen has fourteen, while Nyíregyháza eleven partner-settlements including neighbouring Oradea, Ushgorod, but also Rishon Le-Zion in Israel). At the same time, even many village local governments have 'twin' settlements. Enhancing relations at the settlement level, however, has also run into difficulties in the region. While local governments in Hungary are given wide-ranging competencies, in Romania and the Ukraine the independence of settlements is restricted by strongly centralised administration. In addition, settlements representing the lowest level of public administration in Romania often comprise in fact five to ten associated villages. This makes the establishment of partnerships with other settlements a particularly difficult task. Another obstacle to co-operation is widespread poverty in borderland settlements. The lack of sufficient resources limits opportunities for joint applications for external grants.

Figure 30.1 Types of cross-border relationships in North-Eastern Great Plain borderland settlements by frequency of mention in 1998 and 2002



Source: Questionnaire surveys 1998, 2002.

Cross-border co-operations of local governments in the borderland are similar to those at the county level in that they usually involve cultural activities as well. This finding is also corroborated by a questionnaire survey conducted with mayors of 119 borderland settlements in the North-Eastern part of the Hungarian Great Plain by the Debrecen Department of MTA RKK (Centre for Regional Research of the Hungarian Academy of Sciences). The survey – first carried out in 1999 and then repeated in 2002 – found that approximately one-third of all villages and towns have partner-settlements abroad, the majority with a settlement across the border predominantly populated by ethnic Hungarians. No significant change was observed to take place in the nature of cross-border relations during the time elapsing between the two surveys. However, there was a slight improvement in the area of commercial and economic relations. Also, co-operations became generally more intense. This was indicated by an increase (with the exception of twin settlements) in the frequency of pertaining responses in the more recent survey. However, despite hopeful signs in the first years following the system change, the fact is that areas on the two sides of the Hungarian–Romanian and Hungarian–Ukrainian borders have scarcely moved beyond recognising the need to establish contacts. Few steps have been made to take cooperations to a higher level. This is reflected in the number, general character and intensity of cross-border projects. The share of economic, commercial and educational cooperations remains low. Cultural, sports, settlement twinning and other activities dominate instead (Figure 30.1).

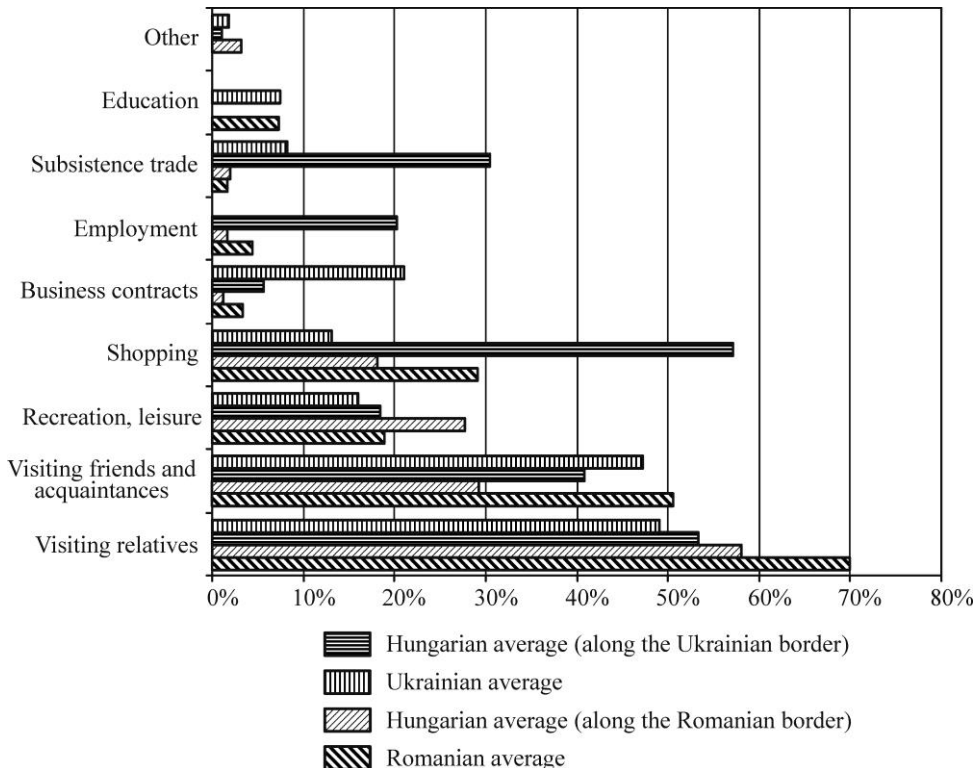
Cross-border Co-operations from the Inhabitants' Point of View Survey

The system change altered not only the intensity but also the characteristic forms of co-operation in borderland areas. The dominance of trade under the auspices of the COMECON was replaced by individual contacts motivated by a search for sources of income as well as the desire to strengthen ties of family and friendship at a time of general economic hardship. The Debrecen Department of the Centre for Regional Research of the Hungarian Academy of Sciences conducted a survey on cross-border co-operations and relationships among the populace of the Hungarian–Romanian and Hungarian–Ukrainian borderland. The method applied was comparable to a similar study of Austrian–Hungarian border relations (Nárai 1999). The questionnaire-based empirical, opinion-poll type survey was carried out in eighteen neighbouring settlements (nine settlement pairs) of similar size situated on either side of the Hungarian–Romanian and Hungarian–Ukrainian borders.⁷ The survey showed that the majority of the population living along the Hungarian–Romanian border sustained cross-border relationships. While almost two-thirds (64%) of those on the Romanian side of the border entertained cross-border contacts, only 42.3% of the respondents on the Hungarian side gave a similar response. Of the Hungarian settlements included in the survey only two settlements showed a share above 50%. These, Ártánd and Vállaj, are also border crossing points. This may account for the higher figures. Among Romanian settlements included in the study, Székelyhíd and Csanálos (need to use the Romanian names!) had the highest number of Hungarian contacts with 90% and 86%, respectively. The study also indicated a strong correlation between the frequency of cross-border contacts and the ethnic

constitution of settlements on the Romanian side. Accordingly, figures were lowest (37%) in Romanian Nagycsanád and Ottlaka [use Romanian place names] that have the smallest share of ethnic Hungarian population.

For much the same reasons, similar differences could be observed between the two sides of the Hungarian–Ukrainian border in terms of cross-border relations. Of Ukrainian respondents 71.2% had contacts across the border as against only 22.8% on the Hungarian side. There, the highest share of 35% was recorded in Záhony, a border crossing point with the largest traffic and thoroughfare capacity in the area. Among settlements in Ukrainian Transcarpathia, predominantly ethnic Hungarian Mezőkaszony and Nagypalád [use Ukrainian place names] indicated the most intensive cross-border relationships at 97.1% and 90%, respectively. In any case, a growing interest towards Hungary is signalled by consistently high figures of 40–50% on this side. In the case of Cop, lying opposite Záhony on the Ukrainian side, the rate was 70.9% (Baranyi 2004).

Figure 30.2 Type of cross-border links of the population to the neighbouring country according to frequency of mention



Source: Questionnaire survey, 2001-2.

With respect to the *type of cross-border relationships* in Hungary, Romania and the Ukraine, respondents mentioned personal reasons most frequently: visiting relations, friends and acquaintances. Further, recreation, leisure and shopping also rated highly as motives on both sides (Figure 30.2).

On the whole, the share of business and economic relations remains low despite the growing openness of borders. Only Hungarian respondents living in the immediate vicinity of the Ukrainian border mentioned more frequently this type of contact. Difficult economic circumstances and existential hardships prevailing in Transcarpathia are reflected in the fact that Ukrainian respondents top the lists with a wide margin in all categories of relationships which serve as sources of income (shopping, subsistence trade, employment) (Dancs. 2002).

Other Areas of Cross-border Co-operation

In addition to the above, Hungarian–Romanian and Hungarian–Ukrainian cross-border contacts are quite diverse. Independently from territorial levels, a great number of institutions, churches, NGOs and business enterprises have contacts across the border. The discussion of these exceeds the scope of the present study given the wide range of such cooperations. However, it is important to highlight the most important characteristics of economic co-operations.

The system change led to the dissolution of old contacts. Meanwhile, new economic cooperations were slow to take shape owing mainly to the economic recession of the early 1990s in the region. Contrary to practices characteristic of state socialism, private enterprises of different size assumed the leading role in new forms of business collaborations replacing state-owned enterprises. This is reflected in the launching of several joint ventures in the region. It is generally true that Hungarian investors dispose over higher amounts of capital than their Romanian or Ukrainian counterparts. Accordingly, their cross-border investments are more significant than those of Romanian and Ukrainian investors. It can also be observed that the share of Hungarian investment is among the highest in Romanian counties along the Hungarian border as well as in Transcarpathia. Chambers of commerce play a central role in assisting economic relations helping to stimulate economic contacts in the borderlands. As an indication of the importance of Romanian and Ukrainian economic cooperations in the region, the Ukrainian section of the Hungarian Chamber of Commerce has its central office in Nyíregyháza, while the Romanian section is headquartered in Békéscsaba. Enterprise-friendly zones and associated industrial parks (e.g. Záhony and Environs, Bihar Enterprise Area, Makó and Environs Enterprise Area, Transcarpathian Special Economic Area) created in near-border areas are promising forms of cooperation as well.

Main Characteristics of Cross-border Traffic

The development of cross-border connections is crucially influenced by the transparency of the border, i.e. whether a given border serves to link the two sides rather than separate them. As regards the specific borders at issue, the separating

function has traditionally been more characteristic. The intensity of contacts has been marked by abrupt changes throughout the years. Recently, it has become easier to cross borders, although the planning of external borders of the Schengen area and the accompanying, sometimes heated, political debates begin to raise new questions for the future. For this reason, it is by no means a marginal issue to what extent borders between Hungary, Romania and the Ukraine will remain open (Sallai 2002). Data on border-crossings reviewed below can help to trace main tendencies of cross-border contacts in the past fifteen years.

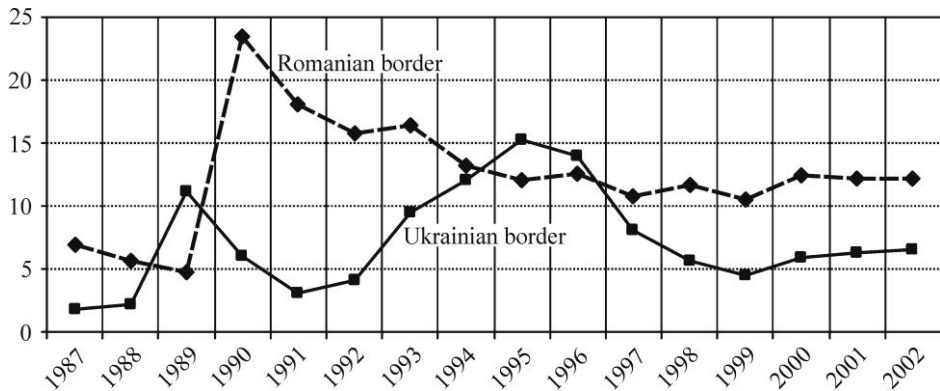
Cross-border Traffic at the Hungarian–Ukrainian Border

For a long time, Záhony was the only crossing point of the 136.7km-long Hungarian–Ukrainian border. Záhony is open both to international personal and freight forwarding on road and by rail. In 1989, four new border crossing points were opened at Beregsurány, Tiszabecs, Lónya and Barabás. The latter two were only accessible to holders of special ‘borderland permits’ issued to Hungarian and Ukrainian citizens living near the border. In accordance with EU practices, this restriction was abolished in 15 November 2003 after which no such special permits can be issued to borderland residents. From this date, all four crossing points have been accessible to international passengers without restrictions.

Data provided by the Nyírbátor Headquarters of the Hungarian Border Police in charge of the whole Hungarian–Ukrainian border stretch indicates that cross-border traffic has been by and large similar to that recorded at other borders of the country during the last fifteen years, although some peculiarities have been observed as well. Cross-border traffic changed considerably between 1998 and 2003. The most significant change took place in freight forwarding. By 1995, the share of rail shipping dropped to one-fifth of its 1988 level. It continues to stagnate at 5-8% of the total freight volume. By contrast, apart from a few ups and downs, car traffic has been steadily increasing and still has the highest share among means of transportation.

Development of passenger traffic has followed that of vehicle traffic in the last fifteen years. Its expansion is strongly correlated with changes in opportunities for subsistence trade. In 1988, hardly more than 2.1 million crossings were registered. An increasingly friendly political atmosphere and the ensuing opening of borders triggered an unprecedented travelling frenzy with a traffic increase of 500% in 1989. Transit traffic made up a considerable part of personal traffic. The main destination for Transcarpathians was Yugoslavia, highly popular there at the time. Transit traffic of Polish citizens, ‘specialised’ in semi-legal trade and currency exchange, was also very intensive (with over one million people!). There was a slight drop in the level of traffic until 1991 (due to the abolition of special ‘borderland permits’ for inhabitants living near Záhony and the decreasing popularity of transit traffic) followed by another period of increase, at the peak of which 15 million people crossed this border stretch in 1995. In this period, the so-called ‘Z-tourism’ was mainly responsible for boosting travel: between 1993 and 1995, Soviet-made used cars could be exported to the Ukraine free of customs duty. These cars were given

Figure 30.3 Development of passenger traffic at the Hungarian–Romanian and the Hungarian–Ukrainian borders, 1987–2002 (million person)



Source: Border Patrol Headquarters, Nyírbátor and Orosháza divisions.

temporary licences beginning with the letter Z while still in Hungary (hence the name). After the introduction of a new customs duty regime in the Ukraine between 1996 and 1998 (curbing the import of foodstuffs and technical appliances and raising customs duties) traffic decreased until 1999. Since then it has been on the rise again at a slow but steady pace (Figure 30.3).

In sum, the bulk of passenger traffic across the Hungarian–Ukrainian border can be ascribed to the population of Transcarpathia fighting for survival amidst the catastrophic economic situation of the Ukraine in the past fifteen years. Illegal trade has been ripe including traffic in petrol, cigarettes, drugs and the smuggling of people. Meanwhile, the registered number of those commuting for employment purposes was barely a couple of hundred per day, although it is estimated that the number of Ukrainians actually working in Hungary, usually illegally, is much higher. The most profitable cross-border activity continues to be petrol trafficking ('petrol tourism') owing to lower fuel prices in the Ukraine. While formerly mainly Ukrainians brought and sold fuel in Hungary, there has been a growing number of Hungarians commuting to buy petrol in the Ukraine since November 2003. This has to do with the introduction of mandatory visas for Ukrainian citizens, while Hungarians wishing to travel to the Ukraine have been freed from former, mainly administrative, requirements (letter of invitation, authorisation of official travel, customs duties for road usage, 'protection of the environment' and other reasons). As a result, the composition of cross-border traffic has also changed. While in the 1990s Hungarians accounted for only 15% and Ukrainians for as much as 80%, of passenger traffic across the Hungarian–Ukrainian border, it seems that respective shares have become more balanced since the end of 2003.

Hungary's accession to the European Union is likely to impact strongly on cross-border traffic. This is mainly because Hungarian–Romanian and Hungarian–

Ukrainian borders became external borders of the EU on 1 May 2004. In preparation for the introduction of the Schengen border regime, special 'borderland permits' for cross-border movements of local inhabitants were abolished in both directions already in November 2003. In addition, Ukrainian citizens are to carry visas to enter Hungary (obtainable free of charge), while Hungarians need simply their passports and proof of sufficient funds to cover the length of their stay. As a result, the composition of cross-border traffic has fundamentally changed. Formerly, Ukrainian citizens accounted for 75% of the traffic, while at present, due to the introduction of mandatory visas for Ukrainian citizens and easier travel for Hungarian citizens, the near opposite is the case. The fact that Romanian citizens need not carry visas is a significant improvement in the relations between Hungary and Romania. (The Schengen Agreement will have been fully implemented by 2007.)

Cross-border Traffic at the Hungarian–Romanian Border

The Hungarian–Romanian border differs considerably from the Hungarian–Ukrainian border. Measuring 448 kms, it is the second longest of Hungary's international borders after the 679km-long Slovakian–Hungarian border, while it is the shortest of Romania's borders. Only eight border crossing points for vehicle traffic are to be found at this border stretch despite its considerable length (from the Hungarian point of view). In other words, crossing points are separated by an average of 56kms from one another (as opposed to an average of 27.3kms on the Hungarian–Ukrainian border).

According to data provided by the Border Police, traffic across the Hungarian–Romanian border has also largely followed nation-wide trends in Hungary, although special features could be observed here too. The most prominent difference is a sudden surge of traffic in 1990 due to momentous events in Romanian domestic politics. This was different from the national average where the peak came approximately five years later (Figure 30.3) (although it must be noted that a similar tendency was also recorded at the Croatian and Yugoslav borders where the war in the Balkans had led to a comparable increase in traffic). Prior to 1990, this border accounted for 8-10% of total cross-border traffic. This number abruptly rose to 19.5% due to the large numbers of refugees in 1990. The following five years saw a gradual decrease to almost half of the figures recorded in 1990. Since then, passenger and vehicle traffic have remained relatively stable with only minor fluctuations. Barring unforeseeable political events or economic changes, similar volumes can be predicted for the coming years. Hungarian citizens account for 20%, while Romanians for 60% of total cross-border traffic.

In recent years, a major incentive for cross-border traffic was a difference in prices between the two countries. Hungarians continue to be attracted mainly by low-priced fuel, while Romanians cross the border in order to purchase food, home appliances and luxury goods. Nevertheless, the price gap has become smaller and smaller between the two sides of the border resulting in fewer border-crossings for such purposes. At the same time, there is still a significant increase in the number of Romanian citizens travelling to Hungary in search of (usually illegal) employment from March to October every year, i.e. during the main season for tourism as well as

seasonal work in agriculture, and the food and construction industries. Those concerned usually intend to stay for a longer period of time as daily commuting would make it easier to catch them. In any case, those clearly intending to look for illegal employment opportunities are turned back at the border if discovered.

Since the Hungarian–Romanian and the Hungarian–Ukrainian borders are now also borders of the European Union, requirements for being allowed to cross borders have also become more rigorous. After 2002, Romanian citizens are no longer required to carry a visa to enter the European Union. Therefore, the main difficulty for Romanian travellers is to prove the availability of necessary financial resources for the duration of their stay. Complying with EU directives, Hungary introduced mandatory visa requirement for Ukrainian citizens on 1 November 2003, a measure that caused much worry in Transcarpathia at the outset. However, these worries proved unfounded as Ukrainian citizens wishing to travel to Hungary can obtain visas free of charge. Long queues due to high initial demand are no longer the rule. Consequently, the requirement of having to prove the availability of sufficient funds for the length of their stay in Hungary is the biggest obstacle for Ukrainian citizens as well.

Conclusion

Hungarian–Romanian and Hungarian–Ukrainian borderland areas can be said to be in a unique situation for a number of reasons discussed above. This unique situation impacts on the prospective development of cross-border relationships as well. The fact that in these two cases borderland areas find themselves in a peripheral position appears to contradict the idea that, rather than being a drawback, borderland location can quite frequently constitute a distinct advantage as a number of examples demonstrate (among others, in Western Europe). In other words, since borderlands are not necessarily peripheries, it can be no coincidence that that is unfortunately the case in the areas studied here. In Eastern Hungary, borderland location – partly due to the emergence of peripheries – has been synonymous with backwardness ever since the Peace Treaty of Trianon. In this region, borders have existed to separate rather than connect (or bridge) even during the last fifteen, post system change years, although clearly the latter function would have served national interests better. Nevertheless, after decades of ‘isolation’, from the 1990s onwards we see a growing number of opportunities to promote cross-border links in Eastern Europe. At the outset, these opportunities were hardly exploited, but now more and more institutions and NGOs rely on cross-border cooperations.

These characteristics of slowly developing cross-border co-operations in the region are markedly different from those of similar cooperations in Western Europe. Although bilateral agreements have been concluded by the states concerned (without necessarily covering all relevant areas), economic ventures have so far been relatively underrepresented among cross-border cooperations. Interactions among individuals, subsistence trade exploiting opportunities offered by the border’s proximity (small-time trade, shopping and ‘petrol tourism’) as well as straightforwardly illegal contacts (smuggling, human trafficking, moonlighting)

continue to dominate. It is also important to remember that the historical legacy of ethnically-rooted conflicts also hinders the development of cross-border relationships.

Euro-regions created following Western European patterns have failed to fulfil previous expectations for a number of reasons. First, they are not bottom-up organisations and are importantly shaped by governmental policies (e.g. Carpathian Euro-region). Second, these Euro-regions tend to be oversized comprising regions of member countries at different levels of economic and social development with incompatible administrative, legal and territorial systems. Large Euro-regions (Carpathian and Danube–Körös–Maros–Tisza Euro-regions) have not produced significant results or made an impact visible to the public eye. No wonder that a number of smaller, bilateral or trilateral interregional organisations were soon created within the framework of Euro-regions.

Hungary's Eastern borderland areas are to face new challenges in the wake of the country's accession to the European Union. Due to inherited historical and still palpable ethnic conflicts, external Schengen borders of the European Union can undermine economic as well as other types of neighbourly relations and contribute to the further marginalisation of what are already peripheral areas in the region studied. At the same time, EU membership may help to access additional resources to promote cross-border relationships. The question is, however, whether or not people living in border areas will indeed be able to cope with these novel challenges and understand that quite unlike in the centralised system of state socialism, they will have to 'take their fate into their own hands' and make responsible decisions. Provided that they can seize these opportunities, overcome a difficult historical legacy and exploit cross-border relationships, this region could break out of its peripheral position. In any case, recent changes beyond Hungary's Eastern borders, most importantly the eastwards expansion of the European Union, raises numerous new and exciting questions. Therefore, even if emphases may change in the future, Hungarian–Romanian and Hungarian–Ukrainian borderland areas and cross-border relations will no doubt remain an interesting subject-matter for those studying borderlands.

NOTES

- ¹ This study was supported by OTKA (National Scientific Research Fund), programme no. T 046120. It is also associated with EXLINEA (Lines of Exclusion as Arenas of Co-operation: Reconfiguring the External Boundaries of Europe- Policies, Practices, Perceptions), an FP5 research programme of the EC.
- ² Comecon (Council for Mutual Economic Aid) served as the umbrella organisation for economic co-operation of Communist countries established in 1949 and dissolved in 1991.
- ³ These special 'borderland permits' enabled citizens living in the vicinity of international borders to cross relevant borders without carrying an international passport.
- ⁴ In accordance with EUROSTAT specifications, the micro-region is the smallest planning and administrative territorial unit (so-called KSH [Central Bureau of Statistics] unit) in

Hungary. It is positioned between the level of counties (NUTS 3) and that of towns (NUTS 5). There are 168 micro-regions in Hungary today.

⁵ Bottom-up micro-regions are voluntary settlement associations for mutual development tasks, protection of cultural traditions, support of civil initiatives, etc.

⁶ At present, there are 19 counties at the NUTS-3 territorial level located between regions (NUTS 2) and micro-regions (NUTS 4).

⁷ There were 600 questionnaires completed on each side of the Hungarian-Romanian border. In Hungary, sample numbers by settlement were the following: Ártánd 50, Biharkeresztes 100, Elek 100, Kiszombor 100, Vállaj 100, Létavértes 150. In Romania, the number of questionnaires were: 150 in Bors, 150 in Sacueni, 100 in Graniceri, 100 in Cenad and 100 in Urziceni. On the Hungarian side of the Hungarian-Ukrainian borderland 509 questionnaires were collected: Barabás 109, Kispalád 100, Tiszabecs 100, Záhony 200. On the Ukrainian side, 566 questionnaires were completed (Csap 192, Mezőkaszony 104, Nagypalád 100, Tiszaújlak 170).

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Chapter 31

Hungarian and Slovakian Cross-Border Relations

István Mezei

'In the 160 km long part of the river Ipoly, which was declared the state border by the peace treaty at the end of World War I the two banks used to be connected by 47 bridges. After the peace treaty had been signed, the Czechoslovakian state had these bridges demolished. Since then only three of them have been restored. So the Ipoly has become not only a mere border river but also a river that paralyzes natural human life.'¹

For more than a thousand years before the peace treaty (1920), which ended World War I, there was only one state in the Carpathian Basin, Hungary, a territory in which a lot of nationalities were living. After the Paris peace treaty (1947), which ended World War II, the changes following 1989, the disintegration of Yugoslavia and the separation of Czechoslovakia, there are eight multinational countries in the Carpathian Basin. Austria became a member of the European Union in 1995 and Hungary, Slovakia and Slovenia joined in 2004, we hope that the previous, centuries-long coexistence without borders will revive and the bridges over the River Ipoly will be restored as a result of the claims of everyday life.

We have to point out, however, that the revival of different forms of cooperation is made rather difficult by the existence of considerable asymmetrical conditions, which have come into being in the past 84 years. There are significant differences as far as political, administrative and economic life, cultural customs, language, etc. of those living on both sides of the border are concerned, which hinders cooperation. However, the accession to the European Union makes the future of these asymmetries rather vague. The consequences of the accession may bring changes that could solve or suspend the majority of asymmetries. Such changes may be e.g., the free migration of the labour force, capital and goods. By now it has become obvious that in the East-West relations this kind of freedom will only be reality to a very limited degree, e.g., the free migration of the labour force will only be realized in several years. This fact justifies the question, whether the positive changes will take place in the relations between the East Central European countries, or will there be asymmetries, which will remain obstacles?

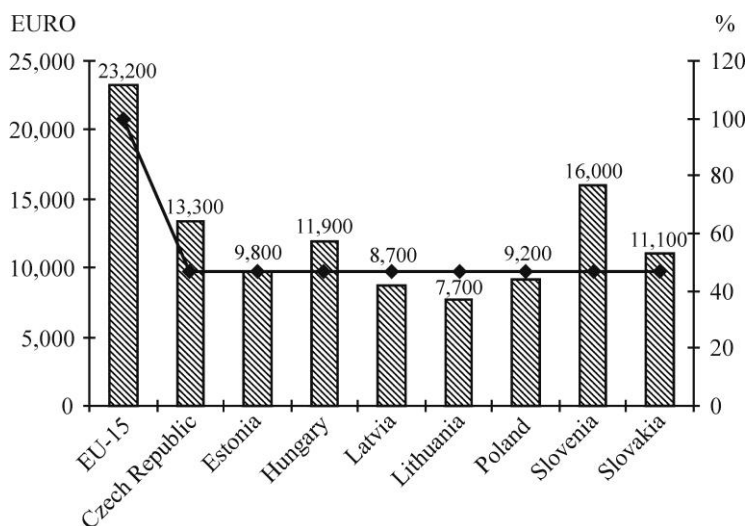
The Hungarian–Slovakian border belongs to the type of cross-border relations, where there are chances of rediscovering the fact that there used to be important forms of cooperation that were beneficial for both sides and this was a mere consequence of coexistence at a time when there were no borders at all. In the present paper the Hungarian–Slovakian relations are analysed based on three issues. First there is a short historical background, which is followed by an analysis of Slovakian administration and finally some important aspects of cross-border relations.

The Historical Background of Hungarian–Slovakian Relations

The East Central European countries between the Baltic and the Adriatic Sea can be found in one of the regions of Europe that have been subject to the greatest number of changes. After the collapse of the Soviet Union, which had kept the area under control, the states that became independent again could start putting an end to dictatorship and ousting communist ruling classes from authority. Their accession to NATO and the European Union are signs that they have managed to break off from Eastern Europe, but at the expense of suffering heavy losses.

As far as their stages of development are concerned, there are significant differences between the previous 15 member states of the European Union and the 8 ex-communist countries that joined the EU in 2004. Whereas the average of the GDP of the 15 member states is 23,000 EURO, that of the 8 ex-communist candidate countries is 10,963 EURO, which is 47% of the average of the Union (Figure 31.1).

Figure 31.1 The GDP of the Candidate Countries 2001



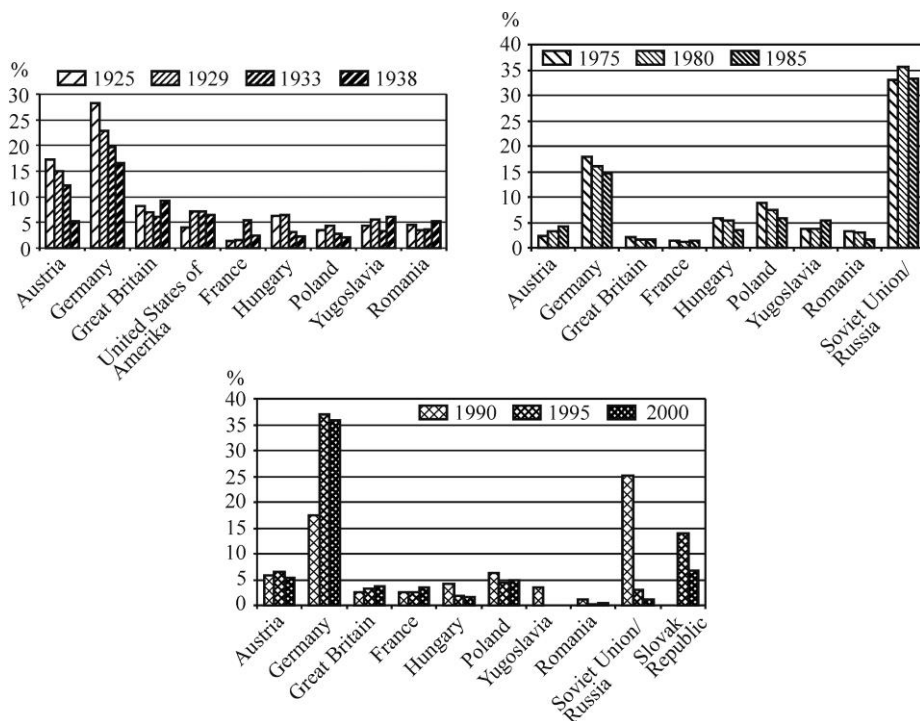
This difference in economy looks back on a long historical past. Among all of the reasons, the quick succession of states of dependence should be emphasized here, which usually resulted in strong political changes followed mostly by economic recession rather than economic growth. With foreign affairs changing, these countries were pushed almost all at the same time to the side of the great power that exerted a strong attraction on them. It can best be seen in their international trade as it provides us with sufficient data. This phenomenon will be demonstrated through the example of Czechoslovakia, a succession state of the former Austrian-Hungarian Monarchy.

The Austrian-Hungarian Monarchy, an impressive historical formation, has to be mentioned because the individual countries first belonging to it, then separating and by breaking up again became the so-called succession states, the majority of which co-existed in a region that was economically independent (Berend and Ránki 1987). Besides the reasons, which led to the disintegration of the Austrian-Hungarian Monarchy and which have mostly been attributed to foreign affairs and the nationality problem, we have to point out the economic reasons, too. The European market, which was growing into a world market did not allow, at the end of the 19th and at the beginning of the 20th century, a region, the size of an empire should form an independent, self-supporting economic unit. In the age of big, global monopolies, capitalistic economic competition and free competition wanted to liberate this isolated market. This was how the empire disintegrated, which caused a lot of harm politically, as it enforced the interests of the victorious powers by sweeping aside the principle of nationality. While achieving its economic aim, the disintegration resulted in isolated, vulnerable economic units emerging on the European market. As a consequence, the new small countries got involved in the extreme trends of the world market and from then on their lives were determined by ever changing states of dependence.

One of the succession states was Czechoslovakia. After being established, Czechoslovakia's most important economic aim was to be independent, to form an independent economic unit belonging to an independent state, to the acquired territory, even at the expense of eliminating or at least restricting traditional, century-long relations considerably. The most important foreign trade markets of Czechoslovakia, though to a decreasing degree, became Austria and Germany. Examining the data of all target countries it is obvious that Czechoslovakia was making efforts to reduce this one-sidedness, therefore the participation of the two countries began to decrease and other Western European countries not involved in the figure (Italy, Great Britain, France, etc.) were gaining more and more importance (Figure 31.2).

Czechoslovakia had the ambition of giving preference to the succession states of Hungary (the so-called Little Entente states) over Hungary in the case of most agricultural products; what is more, it wanted to achieve autarchy, too. The Southern parts of the Slovakian territories were gradually becoming the granary of the country and the Czech processing industry utilized the Slovakian mining products. The difference between the development of historical Austria (with Bohemia) and the

Figure 31. 2 The Main Target Countries of Czechoslovakian Exports Between 1925 and 2000



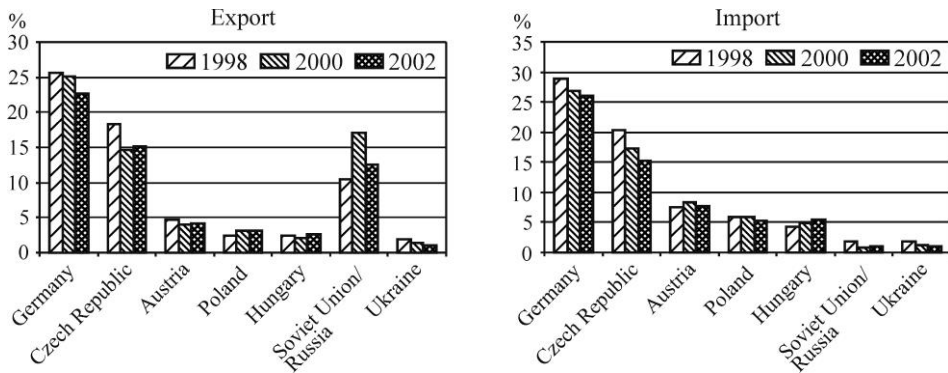
Note: The 1990 data in the diagram are those of the united Czechoslovakia. The data of the years 1995 and 2000 refer to the independent Czech Republic. The German data in the diagrams unite the data of West and East Germany of the age and also those of West Berlin, though in the beginning the former GDR played the decisive role. The proportion of East and West German foreign trade had become equal by 1985.

Source: Magyarország exportpiacai. (1934); Facts (1985, 1991.); Yearbook of the Cz, 2002.; Yearbook of the SR, 2002.

insufficient development of historical Hungary (with counties having Slovak majorities) did not cease to exist in the new state, but it became even more significant. In competition with the traditionally stronger Czech industry the existing Slovak industry had a difficult position. The claim for an independent Slovakia between the two World Wars was a response to this colonisation policy.

After World War II, Czechoslovakia became a part of the Soviet sphere of interests and served its aspiration for world-hegemony and military interests. Its existing commercial relations were also developed on an interstate level, in a way that neither market economy, individual, nor company interests were taken into consideration; they merely served Soviet interests. This meant that the German–Austrian dominance was replaced by Soviet commercial preponderance. In this

Figure 31.3 The Main Foreign Trade Partners of Slovakia Between 1998 and 2002



Source: Yearbook of the Cz, 2002., Yearbook of the SR, 2002.

system of commercial relations Western-European partners played a much smaller role than Eastern countries. The only change within this system of relations after 1968 was that more money was spent on the development of Slovakian territories. This was the subject of later debates and contributed considerably to the eventual separation.

The separation of Czechoslovakia in 1993 did not mean a change in orientation, only in proportions in accordance with the degree of the development of the two countries. As far as its partners are concerned, independent Slovakia is considerably different from the Czech Republic. On one hand, in spite of the decline (20.33–15.2%), the Czech Republic itself is a more important partner for Slovakia than the other way round (18.38–15.1%). On the other hand the importance of Russia is larger. The dominance of the Western orientation, however, is inevitable in Slovakia, too (Figure 31.3).

From the figures it is also obvious that, after 1990, both countries had Germany as their main trading partner and that the majority of other countries involved in their trade are also European countries. (In the case of Slovakia 50,3 % of all exports go to European countries, 78,8 % to OECD countries, 60,5 % of all imports come from European countries and 91,5% from OECD countries.) The European Union has become the new framework within, which the presence of other countries makes it possible to control and dissolve the dominance of individual countries, (especially that of Germany).

This change in the orientation of foreign trade shows also the fact that the reason why these countries have a comparatively low degree of economic relations with each other is not simply the nationalism of some peoples, nations, policies or states. The reason for this is rather that, so as to be separated from and be independent of each other, these countries chose to serve first the economic and political interests of large European (German, then Soviet) empires, and then the European commercial interest determined by the European Union. This process started in the 19th century, was made complete after World War I, and has been going on ever since.

Strengthening the existing East-West network, which is nowadays being modified by business (global?, multinational?, European?) interests, as well as strengthening the commercial relations with our neighbouring countries, e.g. between Slovakia and Hungary, so that they should be much more important trading partners for each other, will be the result of patient, continuous hard work. Also to achieve this aim an eighty-year-old process will also have to be changed. This could happen within the framework of the Visegrád Cooperation², which was an idea of Hungarian politicians. Their idea has been justified by the unexpected results of EU negotiations with future member states, the inequality of old and new member states, and the gradual introduction of favours in new member states, with obligations having to be fulfilled immediately and compulsorily. According to certain analysts favouritism in the trade of the new member states will cease as an immediate result of their EU-membership, which they think will lead to a considerable growth of their foreign trade.

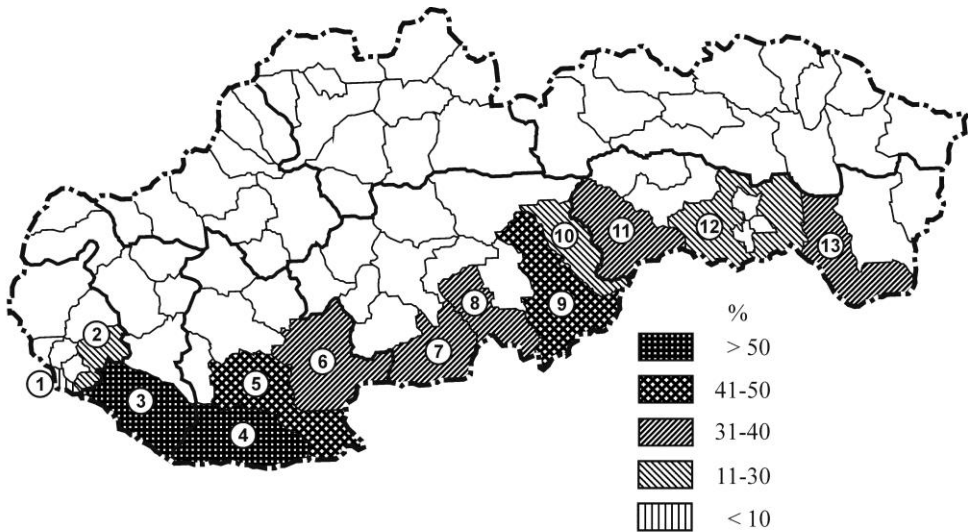
The above analysis focused mainly on relations between countries, Euroregions and above all on their commercial relations, however, it demonstrated clearly how strong the resistance is that has to be overcome in cross-border relations. An especially strong East-West foreign trade orientation has to be spread to the north and to the South, which is a precondition of efficient cross-border relations.

Conflict of Nationalism and Rationalism: Changes in Administration in Czecho/Slovakia

Administration Serving Centralisation of National Purpose

An important factor influencing cross-border relations is the state administration system. Does the Slovakian administration help or hinder Hungarian–Slovakian cross-border relations? On the level of principles there seems to be no conditions that would be adverse to European standards. While developing their democratic regime, candidate states like Slovakia introduced municipalism into their administration. In reality, however, in places where there are several nationalities living, they only took the interests of the nation in majority into consideration and adjusted the reforms in administration and regional development to their interests, which has preserved political tensions in the Southern region along the border. This is a very important aspect of the present paper as it is in the area along the Southern border of Slovakia, where most people of Hungarian nationality live (Figure 31.4).

The great powers drew the borders in 1920 without taking nationalities or language boundaries into consideration. Today out of 5,38 million inhabitants in Slovakia there are 520,000 Hungarians, i.e. 9,7 % of the whole population and it is along the Southern border of the country where most of them are living (Yearbook of the SR 2002). In this area along the border the Hungarian–Slovakian cooperation should be developed, which would result in the strange situation that in certain cases the Slovak government should encourage the cooperation between Hungarian people (living in Hungary) and Hungarian people (living in Slovakia), which they are rather

Figure 31.4 Proportion of Hungarian People in the Districts Along the Border

1. Bratislava V. (4.5%), 2. Senec (24.4%), 3. Dunajská Streda (87.2%), 4. Komarno (72.2%), 5. Nove Zámky (41.5%), 6. Levice (31.6%), 7. Velky Krtis (30.7%), 8. Lucenec (33.8%), 9. Rimavská Sobota (44.5%), 10. Revuca (25.9%), 11. Roznava (35.2%), 12. Kosice-okolie (16.4%), 13. Trebisov (33.0%).

Source: The author's own compilation based on Petőcz (1998).

reluctant to do. The Slovak government assumes political danger in all connections: reunification of Hungarian people, and the danger of losing the territories they acquired in the Peace Treaty. This tension can easily be seen by the constant changes made in the regional division of administration.

Czechoslovakia emerging after the Peace Treaty in 1920 made and later Slovakia (1939–1945, 1993–) has been making remarkably frequent reforms in the administration system. The reason for this is partly that the constitutional form is expressed by the territorial division of administration and by the number of authorities yielded to lower levels. This led to significant differences between the democratic administration of bourgeois Czechoslovakia and the centralized administration of the communist dictatorship then after 1989 again the administration of bourgeois democracy.

The other remarkable factor is that Czechoslovakia became a state with many nationalities, which they undertook neither in their ideology, nor in their administration, nor in their everyday practice. What is more, it was an ambition of the Czech nationalism to form a homogeneous, one-nationality state, i.e. a state of Czechoslovakian nationality. The most important obstacle of this was the presence of the German (3,319,000 people, 22,53 %) and the Hungarian minorities (719,000 people, 4,89 %) according to the national census in 1930, (*Csehszlovákia II.*). It was

Table 31.1 Changes in the System of Territorial and Administrative Division in Slovakia

	Big territorial unit	Small territorial unit (district)
till 1918	10 counties+10 fractions of counties	85 +8 fractions
1922	6 large counties	85 (together with Sub-Carpathian)
1927	2 provinces	77
1939	6 large counties	59
1945	–	79
1949	6 regions (state authority)	92
1960	3 regions (state authority)	35 (later+4)
1968	4 regions (state authority)	39
1990	–	38 districts+121 small districts
1996	8 regions (state authority)	79
2002	8 regions (state authority)+8 counties (local government)	50

Source: Petőcz (1998); The Slovak Republic (2004).

typical of the strong Czech nationalism of the new state (and of the weakness of the Slovakian party) that it was only after a long struggle that they began to recognize the Slovakian nationality, too. The new state often changed the territorial division of its administration in order to develop and strengthen its own power and make other nationalities weaker. The purpose of these regulations was to decrease the proportion of nationalities, possibly fewer than 20%, by changing administrative boundaries, so that nationalities could be refused their rights to their language, to schooling, and to arranging things in official offices.

Instead of elaborating on the topic in full detail, Table 31.1 shows in chronological order what changes have been made in the past 80 years.

Hungarian people had to suffer the most relentless persecution after 1945, because the reformed Czechoslovakia punished them collectively by the regulations of the Benes-decrees. They were disenfranchised, they were not allowed to participate in public affairs or hold any kind of administrative office, and they were even deprived of their property, (lands, industrial and service workshops), and they were dismissed from their jobs. After the communists had come to power, the regulations of civil disability were abolished, except for their deprivation of property, which, in the case of Hungarians living in Slovakia, is in force even today.³ As a result the number of districts with a Hungarian majority decreased, because Hungarian people had been deported or intimidated. A lot of people did not dare to declare themselves Hungarian for fear of the discrimination they were likely to be subjected to. To illustrate this phenomenon a demographic figure should be cited. According to the census in 1930 there were 592,337 Hungarians living in the territory of Slovakia as a province, in 1950, however, there were only 354,532. This was the reason why there could be only 7 official districts with a Hungarian majority instead of the 13 that actually existed (Petőcz 1998: 161).

Figure 31.5 Division of Counties and Districts in Slovakia since 2002

Source: The author's own compilation.

In 1990 the Slovak National Council reformed the Slovakian administration, i.e., it adjusted it to European standards, which meant a separation of administration and the elected local governments of communities again, but it was only towns and villages that got self-governing rights, while other levels of administration preserved the system of public authorities.

The most recent modification of administrative boundaries took place in 1996, in the now independent Slovak state. By reforming the administration system, ruling Slovakian nationalist parties established the organisational system of a centralizing policy on the one hand, and wanted to make reformist electoral wards of the opposition weaker on the other. As the most consequent supporters of social reforms were the Slovakian Christian Democratic opposition and the MKP⁴, the political party of people with Hungarian nationality, the areas inhabited by them had to be split. This was realized in the new system of counties.

This policy of division was realized in the Southern parts mostly inhabited by Hungarian people by setting the new county seats in northern areas, which are inhabited by Slovaks. This was how Banská Bystrica behind the Gemer-Spisská Erzgebirge became the new centre instead of Rimavská Sobota, which had always been the county seat. Csallóköz, an area with only Hungarian inhabitants was divided into two parts, one of which was attached to the Slovakian Trnava, and the other part to the Nitra region. The northern part of both counties has a Slovakian majority and the same is true of their towns. The neighbouring Stúrovo district, which had been separate before, was now attached to Nitra (Figure 31.5).

The disproportion can best be seen in the way districts have been formed. In the northern regions inhabited by Slovakian people there are smaller and more districts than in the South, where most towns and villages with Hungarian inhabitants are

Table 31.2 Territorial Units of Administration (on State and Local Government Level) in Slovakia, 2002

	Slovak	English	Units	Function
NUTS I.	straná	state	1	Legislative and executive central power
NUTS II.		region	4	Regional, planning administrative statistical unit
NUTS III.	kraj + vyšších územných celkov (VÚC)	county, region + Superior Territorial Whole (STW)	8	County level local government + Offices of the administrative districts
NUTS IV.	obvodné	borough authorities	50	Administrative unit with offices
NUTS V.	obec, mesto	municipalities	2883	Self-governing settlement

Source: Negotiation Position of the Slovak Republic (2000); CRR HAS, Miskolc.

concentrated in a bigger district (having more than 100,000 inhabitants). Consequently the number of districts with a Hungarian proportion of more than 20% fell to 2% compared to 10% in 1990, and the seats of the regions are always outside the language boundaries. The only change that took place in 2004 has been that towns and villages in the Stúrovó district could break away from the huge northern district and could become independent, which meant that the number of districts with a Hungarian population of more than 20% grew to three. The Eastern districts inhabited by Ruthenes were organized in the same way.

The above-mentioned territorial divisions were mostly important for Slovak nationalism whereas the introduction of administrative reforms was important for the followers of rationalism. So after long political debates the level of territorial municipalities was established (2002) alongside that of local governments (1990). This county level is called a 'higher territorial unit' in Slovak official terms.

Both levels of municipalities mean a separation from administration. Both local governments and territorial municipalities are independent, and their independence from the state apparatus is ensured by legal measures and financial independence. They have their own property and may levy taxes and fees. Certain tax incomes are shared by the state and local governments, and as some state duties have been taken over by local governments, the financial sources needed for them are granted by the state, but on a normative basis regulated by law (Table 31.2).

Decisions regarding the organizational structure of their office and the budget of the local government are made by a body of representatives that is elected every four years, by the mayor heading it and by the chairman at the county level. Between the two self-governing levels there is no subordinate or superordinate relation. It is only by law that the parliament of the country may order duties or restrictions. From the point of view of the present issue it is important that local governments may also form relations with foreign organizations not only with those of their own country, they may take part in cross-border cooperation. The implementation is made easier by the fact that in the future they may also organize enterprises and may take part in

activities of business enterprises. This will make the common development of the infrastructure along the borders easier.

The idea of self-government will gradually come true, because the duties that have been performed by the state so far are being transferred gradually. They can either exercise the transferred authorities (e.g. education, health care, environment protection, etc.) on their own, or in cooperation with other towns or villages and enterprises. Settlements may launch local government services providing enterprises together or individually, (e.g. in the fields of waste disposal, economy of water-supplies, maintenance, etc.).

Decentralisation affects administration, too. Representatives of every ministry and national authority used to be present in certain departments of the previous district offices. From 2004 the individual specialised fields will not be represented within one office, in different departments any more, but they will belong to the individual ministries. Each ministry will have its own territorial office network. A contradiction of the new system is that instead of the previous 79 district offices there will be more than 340 offices now, and what is more the individual ministries are not even sure to set up their own offices in the same settlement. Hopefully, the headquarters of the office network will be adjusted to the interests of the population. So far 50 district offices and 64 branch offices have been denominated by law (*The Slovak Republic* 2004).

A motivator of the reform of administration is the phenomenon that the number of settlements increased to 2,883 in 2000 compared with 2,694 in 1989. The monetary reform introduced in 2004 is expected to stop this process. According to the reform local governments have to manage on their own incomes and the state norm they get for the duties they have taken over from the state. A consequence of this is that small sized villages with low populations have fallen into a very bad financial situation. This will result in the closure of certain institutions, which in the case of small villages usually means schools. This will produce severe tensions in settlements along the border.

Since 1990 Slovakia has been on the way to a strong constitutional state, which means that local governments may do what law does not forbid, but public authorities may only do what law requires. The strengthening process of local governments and a gradual withdrawal of government offices have started but the whole process is contradictory as is shown by some critical opinions, according to which Slovakian administration is like a man-faced Centaur, which is outwardly West and inwardly Byzantium.⁵

The reform of administration carried out so far shows this duality. After 1998 Slovakia started to implement the principle of self-government. This is shown by transferred duties and by the increasing independence of regional municipalities and local governments as far as international relations are concerned. Drawing the new administrative boundaries and setting up the new county towns are signs that the reform aimed at destroying traditional social, economic, geographical, etc. relations. As regional development takes place within administrative units and is controlled by political and office members of administration, the right of a large number of people (in this case hundreds of thousands of Hungarian-speaking inhabitants in the

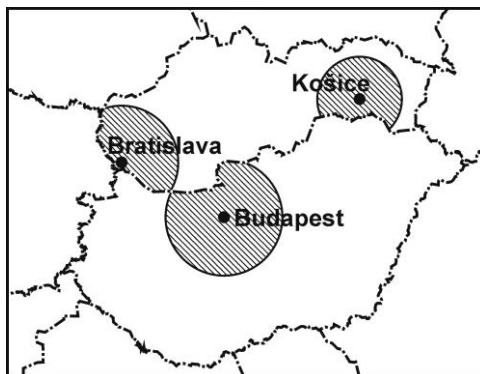
counties Trnava and Nitra) to self-determination is suppressed because the region where they live has been cut into pieces deliberately. Forced to live in counties with a Slovak majority these people will not be able to give proper utterance to their electoral will. They will represent a weak political power in county bodies of representatives elected in this way, as a consequence of which it will always be the interests of the Slovakian majority living far to the north of the border that will be privileged, which will also mean that cross-border relations will lose their importance.

Characteristics of Areas along the Border

Asymmetries of Gravitation Areas

The areas in Slovakia close to the Hungarian–Slovak border used to be part of Hungary for over 1000 years, until they were handed over to Slovakia in 1918. Although this area is usually referred to as *Felvidék* (Upper Northern Hungary), it had never been an independent province. No former administrative or county boundary had ever been identical with the present border, as the Danube had never separated economically, socially or ethnically different areas neither had the North-Hungarian Range of Mountains. Economic lines of force, especially from the second half of the 19th century, in the most dynamic age of capitalist development, had a mostly north-South direction. This was because the main attraction exerted by economic power relations within the country owed mainly to Budapest, a city growing and developing at a surprisingly quick rate and to the Great Hungarian Plain, which offered agricultural jobs. This attraction from the north to the South was modified in the wider region of Bratislava, by a westward attraction that Vienna and nearby Czech areas exerted on it.

Figure 31.6 Broken gravitation areas on the Hungarian–Slovakian border



Source: The author's own compilation.

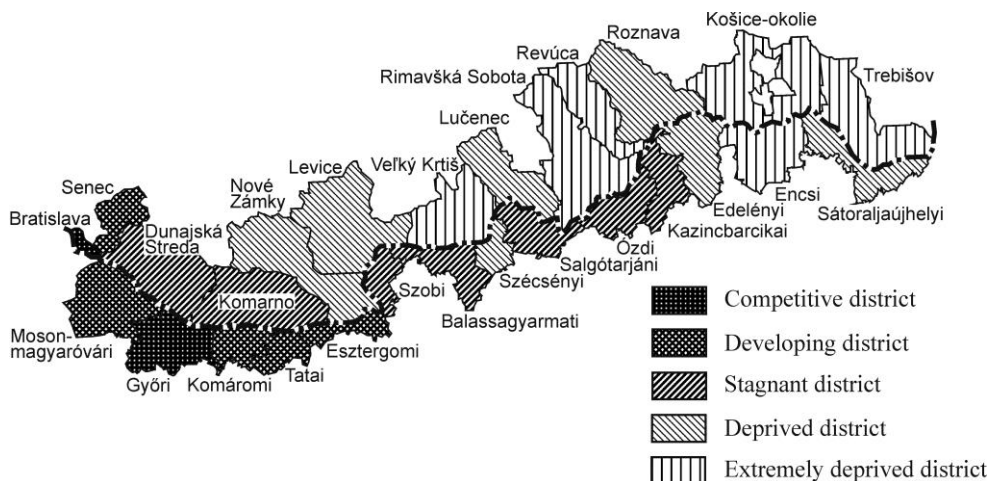
Owing to the existence of the borders the gravitation areas of Vienna, Bratislava, Budapest and Kosice broke down. Bratislava, which is only 20 km from the Hungarian border, does not really attract a labour force from the Hungarian side. The areas to the north of Budapest, which have been torn off the gravitation area, belong to the poorest parts of Slovakia, and the areas to the South of Kosice that belong to Hungary, the Northern part of the *Cserehát*, are very poor areas that have been affected by economic development the least. The reason for this is the fact that the border has broken off former economic and market relations (Figure 31.6).

Territorial Differences Along the Hungarian–Slovakian Border

The districts along the Western border of Southern Slovakia, and on the northern bank of the Danube, used to be agricultural areas, so there were no intentions of industrializing these areas to the same extent as other parts of the country. Owing to the strategical importance of military construction and systems of pipelines for transporting energy in the Eastern part of Southern Slovakia (in Kosice and its region), no other construction was allowed in the area. Consequently the region has become a very underdeveloped area.

The micro-regions in Hungary that are bordering upon Slovakia on the Southern bank of the Danube belong to the most developed areas of Hungary. That is where the main roads run westwards, that is where the investments of foreign capital are the highest, and that is where the indicators of production and service are the highest. The high degree of development is at the moment independent of the fact that Slovakia is the neighbouring country, because cooperation between the two areas along the border is negligible. It is only a few hundred people who go to work from Slovakia to the Hungarian side.

Figure 31.7 Territorial differences in districts/micro-regions along the Hungarian–Slovakian border



On the other, Eastern, part of the Hungarian–Slovakian border, however, the most underdeveloped areas of the country can be found. It has got structural reasons because the crisis of the mining industry, metallurgy, iron and steel production resulted in the fact that these areas have become extremely poor. It can be concluded that while significant asymmetries in the field of foreign trade and administration are making cross-border cooperation rather difficult, the crisis of the economy cannot produce conditions favourable for cooperation, either. External resources would be needed on both sides of the border to launch common developments (Figure 31.7).

Relations Between Euroregions Along the Hungarian–Slovakian Border

As shown above

- i the shifts of the East Central European region from its Western dependence into its Eastern dependence, then again into a Western direction have resulted in new orientations, which prevents the countries of the region from cooperation.
- ii Political order in parliamentary democracy has produced a system of administration, which, owing to nationality conflicts, hinders cooperation.
- iii Social and economic reality, however, is trying to get rid of this situation through democratic means.

Proceeding eastwards along the border we can find increasingly underdeveloped areas and although the more developed Western areas are in a better situation it is by no means the result of the relations they formed between each other. That is why it is necessary to examine whether there is a possibility that similar difficulties could be solved in the future. One such example of a solution is the establishment of Euroregions. In a political sense euroregions are considered to be internal, democratic initiatives coming from below compared with the first two, external conditions.

Euroregions were established in the 1960s in Western European countries so as to improve the disadvantaged situation of the people living along the borders. In cooperation with settlements struggling with similar problems on the other side of the border, the local governments of towns and villages along the border and far from the centre of the country have started to carry out common developments which have overcome difficulties. They have received recognition in their own countries and then on an international level, too. Their situation has been stabilized by legal agreements. Having realized their importance in increasing the cohesion between the nations, the European Council began to ensure community resources for the development of cross-border cooperation. The initial relations based on consultation were being institutionalized gradually which manifested itself in the common planning process and development. To achieve this aim they tried to find internal and external resources together. This was summarized in the Nr 106 agreement of the European Council in 1980 in Madrid.

In a geographical sense the Hungarian–Slovakian border is covered with euroregions (Mezei 2001). Scott (1997) pointed out that in spite of all their structural similarities, these euroregions have special features. While introducing how individual organizations work, we are going to emphasize these differences below.

1. The *Carpathians Euroregion* (see 29.3 Figure in Hardi 2005) can be looked upon as a *symbolic Euroregion*, as the secretary-general of the European Council Catherine Lalumiere, who signed the document of cooperation together with the Hungarian, Polish and Ukrainian foreign ministers on 14 February 1993 in Debrecen, also did. In the beginning Slovakian and Rumanian local governments also took part in the cooperation, but in the end, owing to home political reasons, the representatives of the governments did not sign it. In 1998 Rumania and in 1999 Slovakia became members of the organization with full powers (Süli-Zakar 2001). This Euroregion can be considered symbolic because it's a huge territory (150,000 km²) and it has a large population (14,7 million people), which makes the cooperation of 26 member regions rather difficult. The numerous state borders, manifold customs and legal systems further increase these difficulties. However, the purpose was that in this poor region, where people have suffered so much, peoples or rather their governments and political factors should make approaches to each other. The Carpathians Euroregion is an organization of this purpose. This has been justified because within the Carpathians Euroregion right along the Carpathians, the Tisza, and at the borders of three countries, extremely intensive cooperation has started with the participation of Sátoraljaújhely (Hungary), Kráľovský Chlmec (Slovakia), and Ushgorod (the Ukraine). A visible sign of this is the intensive exchange of news and information: a three-language newspaper (in Hungarian, Slovakian and Ukrainian), with an English summary, regular cable television programmes and broadcasts of economic activities at fairs organized on a regular basis. In agreement with the secretariate of the Euroregion, the cooperation of enterprise developing organizations started in 1994 in the area of the three borders under the name The Carpathians Alliance for Cross-Border Economic Development. The members of this alliance are chambers of commerce, local governments, and entrepreneurs of the areas involved. The cooperation contract was signed in Velké Kapusany (Slovakia), with Sátoraljaújhely, the offices of the Zemplén Regional Enterprise Developing Foundation as its centre (Dankó 1999). In 2004 a new euroregion was established as a result of the cooperation and organization of the enterprise developing foundation based in Sátoraljaújhely (Hungary) and the regional development agency in Kráľovský Chlmec (Slovakia).
2. The *Miskolc–Kosice Euroregion* was established to prevent *the potential rivalry between the two towns*. After 1918 Kosice lost its southern gravitation areas and besides, the loss of Kosice had to be made up in Hungary. Miskolc should take over this part but it is not capable of it, not even in cooperation with other towns in the Sajó Valley (Ózd, Putnok, Kazincbarcika). The two countries have no other central cities of a similar size in their Eastern area. Theoretically, there was a chance for the two towns to compete with each other, but the relations both between the two countries and between the two towns are so insignificant that it was hardly to be expected. Cooperation, however, would be a suitable way for the region to overcome the crisis. The development of communications network between the two cities would increase economic dynamics. The realization of the plans is being impeded by the changes of political life blocking

common activities. The mayor of Kosice has become the president of the republic, and the efforts made to establish the medium level of municipality are still distracting important powers from cooperation. Besides, there were local government elections in Hungary in 2002, when the former mayor, who had been encouraging the first steps taken to realize Euroregional activities, was replaced by a new mayor in Miskolc. As for common plans, it is the motorway connecting the two towns that is the most likely to be realized.

3. The *Sajó–Rima Euroregion* is the most obvious in showing support for the cooperation between the two, Hungarian and Slovak, nations. In the beginning the cooperation of local organizations was organized, which existed independently of each other in the territory of the Gömör County (with a mixed population) of the time. There was the Gömör Association with Putnok as its centre, consisting of 22 towns and villages, and on Slovak side there were two Gömör associations with Rimávská Sobota and Roznava as its centres. As these micro-regions were not effective, even if they had joined their forces, they extended the cooperation to the micro-regions along the Sajó and the Rima. This was how their cooperation started to work towards new goals, like the protection of nature, development of tourism, and sewage purification. This new, practical kind of relationship that disregards national differences has been developing since 1999. The two parties signed an agreement of cooperation in 2000. There are twin-town networks covering the whole region, and the Gemer fairs provide a good opportunity to develop business relations.
4. Following *traditions*, the *Neogradiensis Euroregion* emerged more or less in the territory of the former Nógrád County, which consisted of various nationalities. On the Hungarian side it includes the Hungarian Nógrád County, and on the Slovak side the Velky Krtis, Luseneč and Poltar districts. The agreement concerning cross-border interregional cooperation in the historical Novohrad County was signed in December 1998 in Luseneč. This Euroregion was intended to develop traditions. Tradition plays an important part because there used to be mining and metallurgy industry in this area going back to the second half of the 19th century. The former Palots village⁶, Salgótarján with its 800 inhabitants became an important industrial town at that time and Luseneč, with its Jewish merchants, became an important centre of trade. The border tore apart the county, which had just started its development and had already achieved considerable international recognition.

The course of development, which was forced to diverge, was favourable only for towns and villages with mining and processing industry (among them Salgótarján), in Nógrád County during the decades of the communist rule on the Hungarian side, but this was an out-of-date economic structure that was forced upon the region. Owing to the effects of the world market this course of development depreciated in the whole country, and in this county, too. Local policy has been making big efforts to try to bring dynamism into the region in deep crisis ever since. Tangible results of this ambition can only be seen in the parts of the region close to Budapest.

The Slovakian side i.e. the area along the southern border has been left out of Slovakian development. It has remained an agricultural area, and the industry focusing on towns, which was rather neglected by the Czechoslovakian industrial policy, has served “Slovakization” purposes. As a result it has become a crisis zone with a rather high unemployment rate, which in places is over 30%.

The Euroregion provides an opportunity for 19th century dynamism to revive again. Its primary conditions are included in the strategic plans that have already been prepared on Hungarian side. The most urgent aims are to repair roads and to increase the number of border stations. For the Slovakian side where they process their own raw material, silicate means a strong motivation force, in the distribution of which the Hungarian side could also take an important part.

5. The *Ipel’–Ipoly Euroregion* has emerged from the cooperation of the individual civil organisations of *environment protection and culture* in the two countries. First there was a movement of environment protection on both sides of the border called the Ipoly Unió in 1996. The predecessors of this organization had been operating as twin-organizations on both sides of the border in separate organizational forms but in close cooperation from the end of the 1980s. Their aim was to protect the 140 km-long Ipoly from the Slovakian intention of canalizing it. They protested against building damming plants and cross-dams.

In Hungary it was the Ipoly-Area Development Foundation that dealt with the development of local communities on both sides of the border, as well as with revealing social, economic, architectural, infrastructural and environmental problems of towns and villages. Programmes organized by free universities have helped to achieve the above aims most successfully. Courses, declarations, ideas of development have led to the establishment of the Euroregion in 1999 in Balassagyarmat, where two twin-organizations were formed according to the political and legal conditions at that time. In October 2002 a contract was signed by the Ipoly Euroregion Cross-Border Cooperation and the Ipel’sky Euroregion Alliance of Corporate Bodies, through which an alliance and independent corporate body called the Ipel’–Ipoly Euroregion was established. The headquarters of the Alliance can be found in Šahy (Slovakia). This united organization applied for admission to the Alliance of European Regions, and succeeded in May 2003. At present the organizations are dealing with the design of bridges that are to be built again over the Ipoly. The viability study of the reconstruction of eight bridges is in progress.

6. The *Vág–Danube–Ipoly Euroregion* is an *organizational type* or regions. In the beginning the Hungarian Rákóczi Alliance and the local governments along the border tried to find links with the other side of the border, but their cooperation continued on the level of national politics after the local governments of Pest and Komárom-Esztergom Counties had joined in. As a consequence the development councils of Fejér and Veszprém counties joined in, too. In the summer 2002 they signed an agreement with the Slovak-Polish Tatras Euroregion and the Czech-Polish Silesia Euroregion, in which they made up a notice (the ‘Neszmély notice’, Hungary), with the purpose of establishing the Alliance of the Euroregions of the Visegrád countries. The leaders of the Euroregion hope

that in 2003 the document concerning the establishment of the alliance may be signed by the representatives of all Euroregions, and the Euroregional Council of the Visegrád Countries may be formed. On one hand this would help other Euroregions in a similar position and on the other hand they could enforce their interests better in the European Union and could obtain financial resources more easily. The most important aim is the maintenance of Slovakian–Hungarian relations and the cooperation of the Euroregions of the Visegrád areas that is why they have not tried to develop relations with Western European Euroregions (Hardi 2000/a). It is a new feature within the organizational framework of a Euroregion that a small but active organization called the Ister–Granum Euroregion has been established, so as to develop the cooperation between the towns on both sides of the Danube (Esztergom – Hungary and Stúrovó – Slovakia). This was where the bridge over the Danube (called Mária Valéria) was opened in 2001 making the life of almost 100 settlements easier through the accessibility of the services provided by the other side. The reconstruction of the bridge, which was destroyed in World War II, took place with the financial support of Hungary, Slovakia and the European Union.

7. The *Triple Danube Euroregion* of the Three Branches of the Danube can be called a *prestige region*. Its establishment was the result of political ambitions, then after setting up a secretariate (with one person on each side), it was left to its own resources. The memorandum of association does not even regulate the order of operation, and from January 2001, the date of establishment to October 2002 the parties did not even consult each other. The secretariate, however, is working, so there is a chance of future cooperation. The Slovak side is preparing the strategy of development, and the result of the cooperation of the statistical offices of both sides is a publication, which introduces the Euroregion with the help of statistical figures (Hardi 2002/b).

Conclusion

It is the interest of the people and the communities living along the border that their everyday relations should not be regulated by the existence or non-existence of the border, but they should be able to determine the scope of their activities in their everyday life. However, large-scale European economic relations and the political and state establishments affect the life of the people along the border as external forces. The means of the democratic political action are also suitable for giving priority to central control. The slow reform of Slovakian administration introduces the elements of the self-governing system, which would enable the gradual harmonization of local developments on both sides of the border. To realize this aim, euroregions of different sizes and functions have been established. The Hungarian–Slovakian cross-border euroregions are relatively new, only a few years old, but their activities already show signs that their ambition is to help former many-sided social and economic relations to revive. These local initiatives are going to play an important part in healing the wounds inflicted by history.

NOTES

- ¹ Declaration of the meeting 'Ipoly Bridges' on October 25 2003 organized by the Ipoly Euroregion, which was established by the villages along the Slovak Republic and Slovakian regional civil organizations. (excerpt)
Source: www.ipelregion@changenet.sk
- ² *Visegrád Cooperation:* the name refers to the meeting of the Hungarian, Polish and Czech monarchs in the Visegrád Royal Palace (Hungary) in 1335, where they signed a trade agreement. In memory of this agreement, the political leaders of Hungary, Poland and Czechoslovakia signed an agreement of cooperation in 1991 to contribute to the Euro-Atlantic integration.
- ³ However, discrimination has been abolished legally, in reality, complicated execution instructions and executional policy prevent previous owners from getting hold of their original property, which means that discrimination still exists in a hidden form.
- ⁴ MKP: Party of Hungarian Coalition. A party organized on a nationality basis and by reconciliation of political points of view, a part of governing forces, MKP fights most consistently for the implementation of Slovakian reforms.
- ⁵ 'The Party of Hungarian Coalition disapproves of the reform of administration being a Centaur law: a man-faced animal, outwardly West and inwardly Byzantium. I do hope that the state, which we are all representatives of, will not overrule its own citizens.' A remark by Béla Bugár in the discussion of the Slovakian parliament on 26 August 2001. From: *Új Szó*, August 2001.
- ⁶ Palots village: inhabitants of northeastern Hungary.

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Environmental Protection in Light of Changes in Hungary's Regional Policy: Possibilities Arising from and Limitations imposed by cross-border location as illustrated by the example of the Danube–Dráva National Park Region

István Fodor

Introduction

Economy had transformed the natural environment profoundly on a global scale by the second half of the 20th century. The perilous impact of economies on wildlife became increasingly obvious in both the East Central European bloc of state socialist countries and the developed market economies of the West. As market-oriented democracies had more leeway for innovative initiatives, they managed to use natural resources more efficiently. Although this allowed for a sharp rise in consumption, perils facing the environment were also pointed out. Policies to curb mounting pressure on the environment were accorded high priority. By contrast, command economies in the Soviet bloc were unable to develop innovative technologies or create economic incentives. Nevertheless, in order to keep up pretence at competitiveness and for ideological reasons, East Central European countries also achieved rapid economic growth, barely sparing natural resources. Growth did not lead to higher living standards or improved welfare; it did, however, have implications, in the form of increased environment pressure and pollution, for the natural environment. This practice was discontinued after the regime change in 1989–1990, when the beginning of the privatisation process also marked the start of a transition era of rebuilding a market economy. This also created completely new conditions for nature and environmental protection.

This paper analyses the impacts of the economic and social trends in the era of transition on the pressure on the environment in light of securing the interests of environmental protection. Political and economic transition also engendered fundamental changes in environmental protection. The transformation of the ownership structure and changes to the economic and legal regulatory environment allowed for the separation of economic growth and pollution, i.e. the changes that occurred in the transition era already allowed for the possibility of economic growth (though at the outset it was more like recession) with reduction in pollution. How did this change affect border regions? The answer to this question is by no means straightforward. In effect, this is the subject matter of this study.

Spatial Changes in Pollution in the Heyday of State Socialism

The operation of the economy under social control fundamentally determines changes to the quality of, pressure on, damage to and improvement in the natural environment. Similarly to other East Central European countries, the main characteristics of command economy during state socialism were *state ownership*, *central planning* and *central redistribution*. Literature on the socio-economic trends in this era is extensive. Findings confirm that the Hungarian political leadership, while exercising control over the processes that transformed the country, practically ignored the issue of the preservation and protection of the quality of the natural environment at all stages of development. Even if it did articulate its intentions to address this issue, e.g. through passing the Environment Act in the mid-1970s, it did not succeed in making any effective intervention. While economic space was created, which was a characteristic of area development in the 1950s, robust industrialisation led to the emergence of industrial regions, which had a profound effect on the re-arrangement of labour force (change in employment structure) and the transformation of settlement structure. These developing regions also became the most polluted areas in Hungary. With agriculture restructured in the 1960s, agricultural production grew vigorously, with resultant improvement in the living conditions of the agrarian population. However, as a consequence of this process, pollution was rife in rural areas as well. (Mainly waste management/disposal, the pollution of ground water and the degradation of the soil became increasingly pressing issues.) Compounded by underdeveloped infrastructure (e.g. the lack of piped sewage disposal, the issue of waste management/disposal and an underdeveloped urban and road network, etc.), unresolved settlement-related environmental problems, amplified by settlement network development, were particularly acutely felt.

The 1980s: The Beginning of the Transition Era as Reflected in Changes to Pressure on the Environment

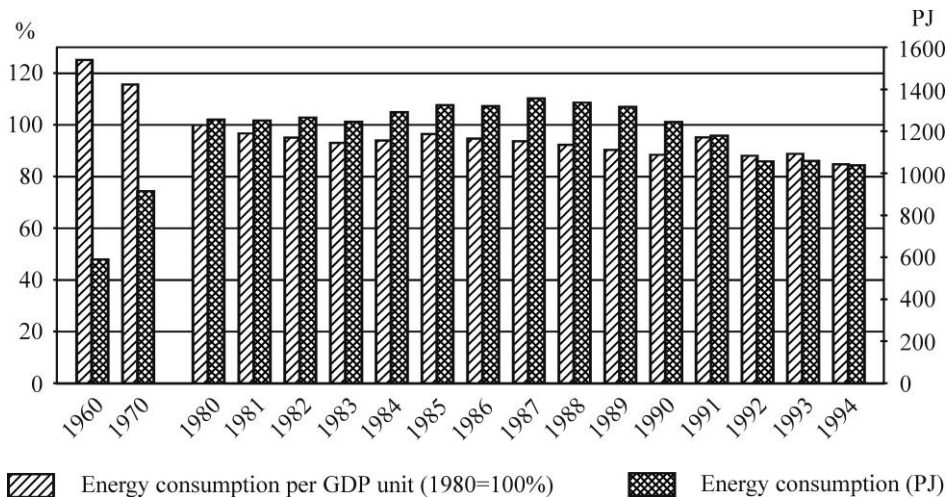
Fully-fledged by the late 1980s, a general *economic, social, environmental and ecological crisis* in Hungary also meant the collapse of those large industrial and

agricultural systems which, unlike their counterparts in developed economies following a post-Fordian path, were only able to manufacture lower-quality goods, while using large quantities of raw material and energy. Thus, reduction in production led to a decrease in the *emission of certain pollutants* (e.g. sulphur dioxide and dust); however, no reduction was experienced in other areas (e.g. traffic-induced air pollution, waste management/disposal and piped sewage disposal, etc.). From an environmental protection perspective, this process already marked the beginning of a transition era. This is evidenced by, in addition to changes to indicators of pollution, the fact that civil organisations active in environmental protection emerged in a growing number, acquiring significant political clout. In effect, it was when green movements reached their peak in Hungary.

Enyedi (1996) argues that this period can be characterised by the conflicting trends of the 1980s. The debt burden on the economy with an obsolete structure was crippling. The economic crisis was deepening. Mounting social and political tension became increasingly obvious. Earlier manipulated economic growth was close to unsustainable. The authoritarian regime was unable to provide a system for conventions.

‘Area development policies also mirrored the struggle for power between the centralised political power and reformers striving for decentralisation. In the abstract there arose the need for innovation-oriented policies, economy was, however, against innovation ...’ (Enyedi 1996: 15). Assisting regions with multiple disadvantages to catch up was high on the agenda of regional policies. Yet, *regional differences* became even more marked. Budapest gained in importance (e.g. in the R&D sector). After 1982, the number of private firms (e.g. economic work partnerships and small co-operatives etc.) grew; however, nearly half of them operated in Budapest. Applying obsolete technologies, large industrial companies with a wasteful energy and raw material use pattern experienced serious operational disturbances. Although the emission of certain pollutants decreased due, in part, to reduction in production, there was no shift towards more sophisticated and environment-friendly manufacturing technologies (Figure 32.1, Table 32.1). The *structural crisis of the industry* was reflected in changes to the industrial use of energy carriers, and the energy balance also underwent significant transformation during this period. Before 1985, there was an unmistakable rise in production energy consumption per GDP of HUF 1 billion. Then, it remained broadly flat, and started to decline slowly after 1990. An analysis of full production values by major sectors revealed that, except for certain service providing activities, GDP had been shrinking steadily between 1980 and 1992. GDP-proportionate environmental protection-related fixed investment (Figure 32.2) is highly instructive. It was highest in 1986 and 1987, accounting for 1.05% and 1.02% of GDP respectively. *Water quality protection* (this was the heyday of the construction of a dam at Bős (today Gabčíkovo)–Nagymaros) had the highest share in fixed investment projects, followed by *air quality protection* and *waste management* (Figure 32.3).

Figure 32.1 Changes in energy consumption in Hungary between 1960 and 1994



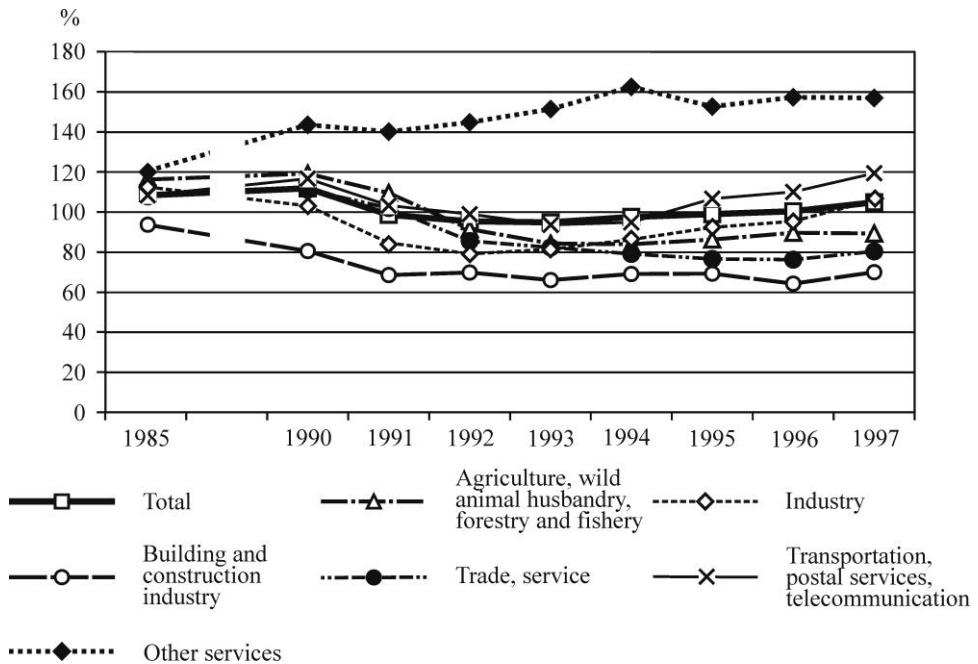
Source: The author's own compilation based on Ministry of Economy and Central Statistical Office (CSO) data, Budapest (1999).

Table 32.1 Changes in the use of major energy carriers in Hungary between 1980 and 1997

Designation	1980	1985	1990	1996	1997
Coal (in thousand tons)	27,544	25,626	20,305	16,044	16,242
Lignite (in thousand tons)	8,479	7,203	5,657	7,646	7,979
Brown coal (in thousand tons)	14,121	13,924	10,752	6,995	7,025
Black coal and anthracite (in thousand tons)	4,944	4,499	3,896	1,403	1,238
Crude (mineral) oil (in thousand tons)	9,550	8,466	7,778	6,792	7,029
Natural gas (million m ³)	9,751	11,182	11,167	12,827	12,200
Coal briquette and semicoke briquette (in thousand tons)	1,816	2,407	2,561	370	229
Electrical energy (million kWh)	31,262	37,603	39,538	37,299	37,545
Black coal coke (in thousand tons)	2,243	2,000	1,183	968	685
PB (liquefied) (million m ³)	277	328	332	346	364
Benzine (in thousand tons)	2,256	2,139	2,410	1,884	2,121
Paraffin oil (in thousand tons)	199	221	233	254	227
Diesel and fuel oil (in thousand tons)	4,350	3,708	3,012	1,725	1,785
Boiler oil (in thousand tons)	3,150	2,786	1,712	2,262	2,256
Firewood (in thousand tons)	1,087	1,147	752	1,158	1,175

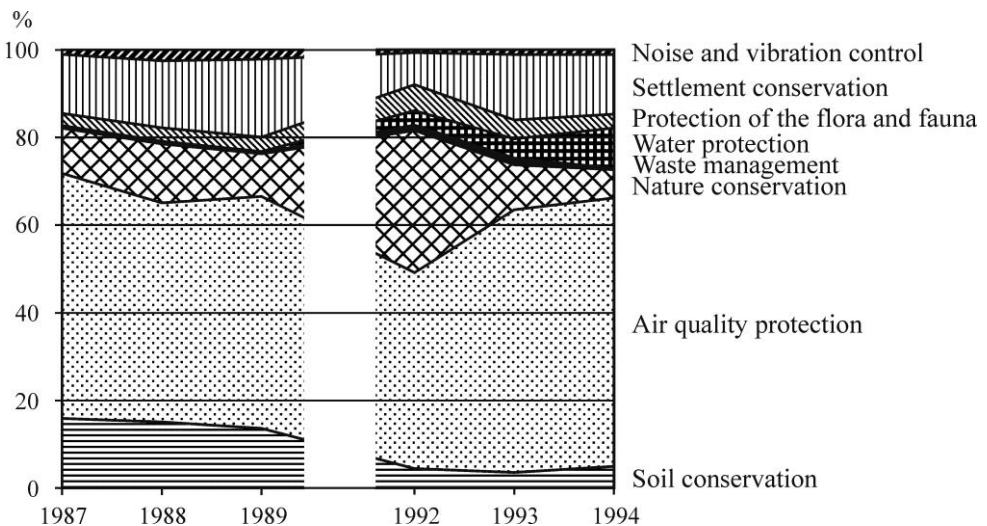
Source: Environment statistics, CSO, Budapest (1999).

Figure 32.2 Changes in GDP in a few major sectors in Hungary between 1980 and 1997



Source: The author's own compilation based on CSO data, Budapest (1999).

Figure 32.3 Environmental protection-related fixed investment projects in a breakdown by objectives between 1987 and 1994



Source: The author's own compilation based on CSO data, Budapest (1999).

The conflicting state of nature and environmental protection is reflected in the fact that although industrial emission fell considerably due to a crisis in production (between 1980 and 1988, SO₂ emission by power stations fell by close to an annual 200,000 tons, industrial SO₂ emission by an annual 125,000 and solid pollutant emission by over 50%), emission values remained high, with hardly any change in the spatial extent of polluted industrial regions. Despite a crisis in agriculture, pressure on the environment kept rising, and the arrangement of a spatial structure that ignored natural habitats led to serious damage to the environment in rural areas as well (Fodor 1993). Central control over agricultural production ignored both nature and environmental protection considerations. It failed to comply with ecological requirements, i.e. it did not utilise agro-ecological potential at a lower cost and with greater efficiency; nor did it succeed in avoiding economic and ecological pressure arising from unfavourable local characteristics (e.g. failure to adjust the structure of agricultural production to agro-ecological potential) (Láng 1980, 1983).

As in the 1970s, besides excessive use of chemicals, *non-standard-compliant storage* and the application of the *wrong technologies* remained the most serious problems. In the 1980s traffic-induced pressure on the environment grew. The *liberalisation of the import of used cars* led to a robust rise in the fleet of vehicles in Hungary. From the perspective of environmental protection, given the large number of low-efficiency uneconomical socialist cars, the composition of the fleet was unfavourable as it was. However, it was further deteriorated by the import of an equally large number of old Western cars, which, compared to their make, were also obsolete. There was a hike in the average age of the fleet of vehicles; thus, not only the emission of wastefully used fuel, but the unresolved management of abandoned old cars and those that ended up in scrap yards also contributed to increased pressure on the environment.

The *public utilities gap* further accelerated. In 1980 75% of the population had access to piped water supply. The corresponding figure for 1990 was 91%. By contrast, growth in piped public utilities was less spectacular, edging up from 40% to 54%. As a consequence, the utilities gap had widened from 35% to 37%. The situation was much worse in rural areas with small and medium-size settlements. Only 8% of all villages were provided with piped public utilities; the corresponding figure for small settlements with isolated small villages was 2% to 3% even on a national average (Fodor 1995). *Pressure on waters* had risen significantly. Close to 80% of sewage was discharged untreated into waters.

In contrast, the Environment Act was conducive to a rise in the size of *protected nature conservation areas*, which constituted considerable progress. The Aggtelek National Park was established in 1985 in order to provide enhanced protection for the invaluable natural heritage of the Aggtelek karst site. The establishment of an institutional network of nature and environmental protection resumed. Regional centres were set up first under the joint supervision of regional water directorates. In 1991, however, they seceded and were transformed into independent regional nature and environmental protection supervisory authorities.

The Impact of the Development of the Market Economy on Environmental Protection

The way out of the 1989–1990 crisis in Hungary was crucial to nature and environmental protection. The regime change enabled the country to overcome the political crisis within a relatively short time. Rapid consolidation was instrumental in dismantling the political and economic structure of the old command economy and in developing the market economy in the early 1990. A new democratic system of political and public administration institutions was established relatively rapidly. Municipalities, vested with decision-making powers, formed the local basis of area and settlement development. Preparation for accession to the European Union further sped up this process.

It was at this time that the Hungarian economy had to undergo that type of restructuring that developed economies had managed to implement, by establishing a modernised post-Fordian economy, in order to climb out of the recession of the 1970s. *Scarcity of capital* and indebtedness, the latter being huge even by East Central European standards, hampered *economic rejuvenation*.

Economic growth, which started to pick up in 1994, did not entail increased use of energy, which was a favourable development from the perspective of environmental protection. This is evidenced by the fact that energy consumption increased by a mere 0.2% between 1995 and 1998, when average economic growth amounted to 3%. It edged down by 6.8% and 4.9% in 1997 and 1998 respectively. Relative to developed economies and compared to Hungary's income earning capacity, energy consumption is still high. It is 20% higher than in France and the UK; its efficiency is, however, better than in the Czech Republic, Poland and Romania. The first promising sign of a shift towards *sustainable development* was that industrial energy consumption had fallen by 3.3% between 1994 and 1998, when production grew vigorously. Longer term decline in energy demand per unit of industry and a favourable change in the structure of industrial production moved in parallel. Favourable change meant that the less energy-intensive engineering industry had taken the lead and that more energy-intensive sectors such as metallurgy and chemical industry had been phased out. From the perspective of whole-economy development a robust annual rise in the export sales of engineering industry products, to which FDI contributed significantly, was also important. As regards environmental protection, similarly to changes in industrial production, an increase in the number of fixed investment projects in manufacturing is perceived as a favourable development. The number of these projects grew 1.7-fold between 1994 and 1998, accounting for 25% of whole-economy fixed investment. Likewise, expansion in the services sector was also a change for the better. The share of transport, warehousing, postal services and telecommunications in whole-economy fixed investment amounted to 19% in 1998. The fact that fixed investment in health and social care decreased in real terms paints a bleaker picture and points to the vulnerability of economic restructuring and financial constraints. Compared to 1994, educational fixed investment fell by 20% in 1998. On balance, the development of the Hungarian economy was favourable even in CEE comparison (Fodor 2001).

In the 1990s, privatisation, which laid down the foundations of the market economy in the wake of the regime change, also provided a new context for nature and environmental protection. The majority of natural resources fell into *private hands*. The dual function of the state, which was especially unfavourable with respect to nature and environmental protection, practically ceased to exist. Such dual function meant that as the owner of its own companies it supervised and imposed limitations on itself in the interest of nature and environmental protection. A shift in economic structure (the phase-out of large polluters with wasteful energy consumption patterns), which was a favourable development from an environmental protection perspective, and the equally beneficial effects of market values on reduction in pollution have already been discussed. The regime change allowed for the possibility that laws might be passed that stipulated the assessment and remediation of earlier damage to the environment. With the emergence of private farms, the legal aspects of *environmental responsibility* had to be explored, since new owners could not have been expected to perform remediation for the damage that they had not caused. Damage to the environment was rather diverse. Sometimes it amounted to several billion forints. From an economic point of view, privatisation could have come handy for environmental protection, as sales meant large one-off sums, part of which could have covered the damage done to the environment earlier, and for which the former owner, i.e. the state, had legal responsibility. However, most of the necessary damage remediation failed to materialise. The most important underlying reason for this was that at the initial stage of privatisation neither the Parliament, nor the government, nor the privatisation agency representing the state advocated for nature or environmental protection. On the contrary: documents give evidence that it was not in the interest of the privatisation agency to uncover the problems, as the costs implied would have reduced sales prices, which, due to continuous political and fiscal pressures, had to be maximised. Such pressures led to the prevalence of short-term interests and, in many cases, speculative purchases. Only rarely, slowly and randomly were environmental considerations, which presuppose the presence of *long-term interests*, reflected in legislation and expansion in institutional competences. By 1995, when chapters on environmental protection were included in the Privatisation Act (the Environment Act, with chapters on privatisation in it, was passed, with environmental protection becoming a statutorily stipulated part of privatisation), most privatisation and liquidation transactions had been concluded and change in ownership had occurred. Environmental issues were, as a result, resolved as part of the privatisation bargaining process, on a case-by-case basis, depending on the bargaining power, prevailing intentions and familiarity with the issue at hand of the parties concerned (Csanádi é. n.).

Thus, privatisation was unsuccessful from the perspective of the remediation of the environmental damage left unresolved. Therefore, an analysis of the environmental guarantees provided, in the course of privatisation, by the new owners of the sixty large firms surveyed by Csanádi (é. n.) is highly instructive.

In the case of the privatised large HUF firms under review, the amount of the environmental guarantees exceeded HUF 75 billion. However, relative to the

estimated value at risk, the amount of the guarantee actually used up until 1997 had only accounted for a mere 4.3%. Two-thirds of the guarantees had expired prior to 1997, with the bulk of the remainder becoming null and void by late 1998 (Csanádi é. n.). The above analysis reveals that in the course of the privatisation process the environmental guarantees failed to fulfil the role that they could have played in the remediation of the environmental damage done earlier. Both the government and the owners postponed the resolution of this problem. Events confirmed that there was only a slim chance of passing the burdens on to buyers in a manner that they did perform damage remediation. Thus, the chances are that this responsibility will become the state's sole responsibility and duty. For it was indeed the state that missed the opportunity to perform, jointly with the buyers, the remediation of the environmental damage done earlier (e.g. rendering hazardous waste harmless) through enforcing the guarantees. The long-term requirements of EU membership include reactive damage remediation anyway. Both intricate ownership that had evolved through land privatisation and auctions either ignoring government responsibility for the protection of natural heritage or putting it on the back burner weakened the bargaining position of environmental protection.

It was further weakened by privatisation, as – with mass layoffs in production in the wake of the decline of industry and large-scale farming – job creation gained in importance from both business and employment perspectives. As a result, FDI was able to create jobs through employing such technologies that confirmed the suspicion of 'the backyard effect'. As, on the surface, the objectives of business transactions that posed a threat to the environment were privately initiated foreign trade and job creation, only rarely was it possible to identify particularly critical cases.

Counting on the preservation of their competitiveness in Hungary also as an EU member state, those *multinational companies* that introduced, as a result of privatisation, environment-friendly state-of-the-art technologies influence the quality of the environment beneficially. The impact of the changes to the structure of agrarian production on the environment is also worth a separate analysis. Privatisation brought about changes in the size of cultivated land. Furthermore, an excessive break-up of privately-owned strips of land raises a large number of agrotechnological issues. According to estimates, hardly 50% of Hungary's cultivated land, which used to be cultivated by large-scale co-operatives, is now owned by over 1.8 million private farmers, 57% of whom have less than 0.2-hectare piece of land. Furthermore, 'these small strips of land are often at 10 to 15 different places, scattered over a wide expanse of land, at large distances from each other.' (Recommendations of the Hungarian Academy of Sciences for agrarian development, 1995).

Our findings reveal that privatisation alone has not been beneficial to environmental protection in the agrarian sector either (Fodor 2001). The fact that land has been broken up reduces the efficiency of cultivation. In addition to the negative impact that the lack of capital exerts on the environment, most pollution-related problems are likely to arise from non-compliance with rules governing technologies.

Market mechanisms affected pressure on the environment by the agrarian sector beneficially in several areas already at the initial stages of their operation despite the dangerous pitfalls of the economy and the potential threat that it posed to the environment (Fodor 1995).

Led by the author of this article, a study, based on a representative sample of 20 industrial, 20 service provider and 20 agricultural businesses in the city of Pécs and Baranya County, was conducted on the impact of privatisation on environmental protection in 1995. In offering a few conclusions, this study focuses on the experience gained in agricultural businesses and relies on literature (Csanádi é. n.).

Changes in land ownership and interviews analysing the impact of market mechanisms suggest that it was not the most efficient business entities (e.g. production co-operatives and state farms) that used the largest amount of artificial fertilisers; not surprisingly, it was not these entities either that reduced the use of chemicals the most in 1992 and 1993. Their use by the Reménypuszta co-operative near Pécs, for instance, only declined by a mere 30% between 1989–1990 and 1993. If we allow for the fact that the co-operative was able to offset even this 30% reduction significantly by the use of environment-friendly technologies and through increased efficiency, the environment-friendly impacts of the market become discernible.

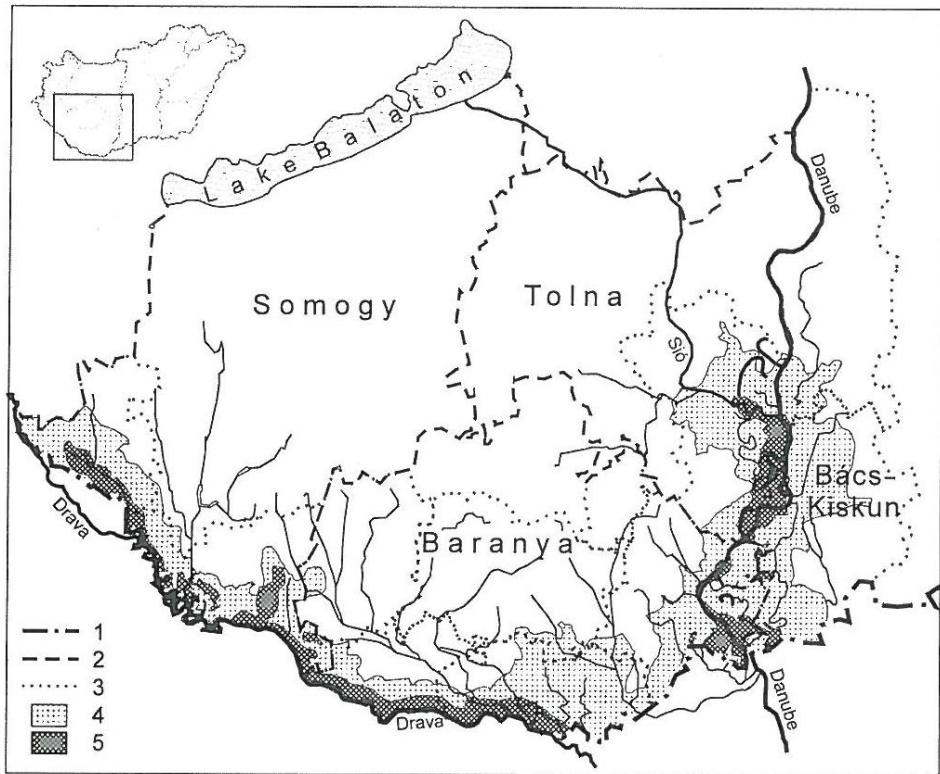
The aerial dispersing of liquid fertilisers and the establishment of land-based new airbag sprayers are two of the results of technological upgrading urged by market mechanisms. In addition to an improved use of chemicals, co-operatives manage to save the cost of the temporary warehousing of solid fertilisers and losses arising from warehousing. As regards the latter, even if management proceeds with the greatest care, an average 10% loss must be allowed for in the case of solid fertilisers, given that the technology used is mediocre. This is undoubtedly loss that had caused damage to the environment. Its amount reached an annual 140,000 to 150,000 tons, even according to a low estimate, during the years of peak use.

The findings of the research reveal that the beneficial impact of the market on the mitigation of the pressure placed on the environment by the agrarian sector is reflected not only in the amount of and the regulations on the chemicals used, but also, especially over the longer term, in the spread of environment-friendly technologies. However, for this to be achieved, competitive and adequately capitalised producer co-operatives and state farms are needed.

Natural Heritage, Pre-transition Barriers as a Result of Cross-border Location and New Possibilities

Characteristically, the transition spanning 1989 and 1990 and resulting in socio-economic changes also transformed the importance of environmental protection dramatically. While the total size of protected area was below 500,000 hectares in Hungary in 1985, it amounted to 670,621 hectares in 1994 and 844,940 hectares in 1999. Of the country's 10 national parks, 7 lie along the border.

Figure 32.4 Danube–Drava National Park



Key: 1 National boundary; 2 Boundary of counties; 3 Boundary of micro-regions; 4 Nearby background of the DDNP; 5 Danube–Drava National Park (DDNP).

Source: Fodor, I. (1998).

The way socio-economic trends in the second half of the 20th century contributed to the survival of the natural heritage along the border is especially interesting. Generally, pre-1989 area and settlement development excluded border regions from job-creating industrialisation. In consequence, natural heritage, significant by European or even international standards, has survived. The survival of wetlands and water habitats, along with various cultures, was especially important. The protection of natural heritage has always played a special role in the preservation of the national identity of the region's majority population and ethnic minorities alike.

The Danube–Dráva National Park (Figure 32.4) is a special example and, by virtue of its extremes, a typical reflection of the heavily discordant relations between society, economy and nature in the Hungary of the 1980s and 1990s. Before 1989, the natural heritage of European importance of the Danube–Dráva National Park (50,105 ha) was saved by an area development policy as a result of which the region had become one of the most backward regions in Hungary. Settlement structure is poor. No full settlement hierarchy has emerged. Some important urban centres are

accessible in a manner that protected areas remain undisturbed by traffic, while others are within easy reach. Except for Szekszárd, county seats (Kaposvár, Kecskemét and Pécs) are all outside the protection belt, so they do not place any pressure on the environment; what is more, the settlements in the protection belt have established relations with settlements outside it. Only minor unfavourable interventions (e.g. the planned development of Szekszárd) have been made in the protection belt of the Danube–Dráva National Park. Structures within the settlement network that have evolved in the course of history have mainly survived. With regard to the preservation of wetlands, it is highly beneficial that the majority of the settlements here, especially those along the River Dráva, were not built on the riverside. Nevertheless, settlement density in the protection belt is high, though population density is low. It is equally beneficial that the inner structure of settlements, except for those of cities/towns, has remained broadly unchanged.

The ability of the region to retain its population has always been poor. Population in the settlements located in the national park and its immediate vicinity has shrunk. Rapid ageing and massive migration (the latter characterising younger-age population) are exacerbated by the fact that unemployment grew to 30% on average between 1990 and 1994 (with villages with much higher unemployment, e.g. Alsószentmárton 41%, Komlósd 52.1% and Vejtin 68.4%).

That the region had been declared a national park meant a new status for the region. It also provided new perspectives in terms of the protection of natural heritage and socio-economic development in this area of the South Transdanubian Region in the mid-1990s.

Transition opened up new possibilities of obtaining international financial resources and of enhancing the protection of national heritage. International agreements on co-operation in nature protection and water management also further the cause of the protection of natural heritage.

Concluded in 1999, an international agreement on co-operation between the Danube–Dráva National Park and the Kopack Rit Nature Park is instrumental in the concerted implementation of nature protection-related regional developments. It is especially instrumental in the monitoring of or, should the need arise, intervention in both favourable and unfavourable cross-border impacts related to nature and environmental protection. Furthermore, it also allows for the possibility of joint research on landscape and cultural history. Co-operation covers the following areas: the long-term protection of indigenous and endangered species of trees, wildlife research (botany and zoology), landscape research (changes to the landscape and traditional forms of landscape use), monitoring (joint water- and landscape-monitoring), spatial informatics (a shared database and data exchange), education, culture, tourism, traditional handicrafts and the observance and preservation of traditional lifestyles. Under a forward-looking approach, this co-operation prepares and serves as a basis for transforming the cross-border character of the Danube–Dráva National Park into one that is truly international.

As to water management, a former agreement concluded between Hungary and Croatia was renewed in 1994. This agreement relies on a declaration issued by those countries along the Danube (Bucharest Declaration, December 1988) which

participate in seeking a solution to water management issues related to and protection against the pollution of the Danube as well as a convention on the protection and use of trans-boundary waters and international lakes (Helsinki Convention, March 1992). With the Danube River Protection Convention signed (Sofia, 20 June 1994) and entering into effect in October 1998, all responsibilities fall into the competence of the International Committee for the Protection of the Danube River (ICPDR). This is an important fact, affecting bi-lateral co-operation and solutions to the water management issues of the two countries. The provisions of the convention apply to all water management issues, measures taken and work done along watercourses constituting shared borders or bisected by such borders and in their catchment areas that may, from a water management perspective, affect the waters concerned, to hydraulic engineering objects and facilities instrumental in the use and protection of watercourses and the remediation of the damage caused by them, and in particular to surface and sub-terranean waters, the stream flow of watercourses and, within this, large and small water bodies, the protection against the harmful effects of waters, the use of waters and protection against any unreasonable use of waters, the protection of waters against pollution, the protection of wetlands and water habitats, the assessment of the impact on the environment of hydraulic interventions, an exchange of opinions, information and data on and research, planning, implementation and monitoring concerning the above issues.

The responsibility of managing the co-operation lies with a Hungarian–Croatian Water Management Standing Committee, receiving assistance from the following sub-committees established by it: the Danube–Dráva Sub-committee, the Mura Water Catchment Area Sub-committee, the Water Quality Protection Sub-committee and the Protection and Use of the Rivers Dráva and Mura Sub-committee.

In addition to nature and environmental protection, issues related to the operation of dams and an envisaged new dam (Novo Virje) are of special importance. The importance of establishing a system for the environmental monitoring of the River Dráva cannot be overemphasised. The natural characteristics of the national park, notwithstanding environmental, social and economic problems, are resources of future development, which, over a longer term, may ensure sustainable natural and economic development.

Hungary's accession to the European Union increases the importance of these regions, which are integral parts of the European natural heritage. As regards internal resources, one of the most important factors is that the peripheral status of the national park, in every sense of the word 'peripheral', is beneficial in terms of the preservation of natural heritage, no matter how paradoxical this may seem. As borders have been porous since the 1990s, the region is no longer closed. Organic farming and related business development projects represent a new trend in job creation and education, with ecoregions in the region serving as a socio-economic background. Of the 650 settlements in the South Transdanubian Region, 241 lie in areas registered as ecoregions, accounting for 41% of the total size of the region. By 2003, the rate of unemployment had fallen significantly. Offering new dimensions, this vision of regional development also holds true, to a varying degree, for other national parks in Hungary's border regions.

Conclusion

The extensive development of Hungary's economy in the second half of the 20th century also led to marked pollution on a regional level. In the late 1980s the conflicting status of nature and environmental protection was reflected in the fact that, although industrial emission fell significantly as a result of a crisis in production (between 1980 and 1988 the SO₂ emission of power stations fell by nearly 200,000 tons annually, industrial SO₂ emission by 125,000 tons annually and solid pollutant emission by over 50%), emission values remained high and that the spatial expansion of polluted areas hardly changed. Despite a crisis in agriculture, pressure on the environment increased, and the establishment of a spatial structure that ignored natural habitats led to serious environmental damage in rural areas as well. Facilitated by the market, this pressure started to ease in the 1990s.

A favourable trend in the mid-1990s was that, while economic performance grew, the emission of pollutants continued to decline, which was also attributable to the regulatory impact of the market and the coming into force of new economic and legal regulations. Now in conformity with EU statutory rules, the second Environment Act was passed in 1995. National parks in the border regions assumed new roles.

The way socio-economic trends in the second half of the 20th century contributed to the survival of the natural heritage along the border is especially interesting. Generally, pre-1989 area and settlement development excluded border regions from job-creating industrialisation. In consequence, natural heritage, significant by European or even international standards, has survived. The survival of wetlands and water habitats, along with various cultures, was especially important.

The transition offered new development opportunities in the area of nature and environmental protection, which is evidenced by the fact that the number of protected areas (i.e. national parks and regions of protected landscape) has increased significantly. Of the three national parks established earlier, the Hortobágyi National Park (1972) and the Kiskunság National Park (1975) are in Central Hungary; the Bükk National Park (1977) does not lie in a border region either.

By contrast, of the seven new national parks, six are in border regions. Before the era of transition, the size of protected areas had hardly accounted for 1% of Hungary (The current state and protection of the environment 1986). When it was over, it amounted to 9.2% (Hungary's environment indicators 2002).

In conclusion, it is safe to say that the transition that started in nature and environmental protection in the early 1980s was over only in the late 1990s and in the early years of the third millennium when, prior to Hungary's accession to the European Union, legal harmonisation was completed.

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Opportunities for Environmental Protection Developments in the South Eastern Border Regions

Imre Nagy

Introduction

The remaking of the political landscape in East Central Europe (ECE) from the early 1990s, the switch to market economy, the approximation to the principles of the EU's regional policies and striving for EU accession all sped up the elimination of backwardness attributable to the peripheral location of the border regions in CEE countries and the convergence of these regions. Cross-border co-operation, which is a key principle of the operation of the EU, was also instrumental in both. With various areas of co-operation identified and focussed on, a number of project documents were prepared which boosted economic development in the border regions (see Hungary's Western border region). Now, the results of the convergence of these areas are also increasingly visible.

Environmental risks, quality and hazards (e.g. the pollution of ground and underground waters) and the utilisation of the natural resources in the border regions of Hungary and the neighbouring countries also merit attention. The underlying reason is that 'as regards the spread of environmental pollution, border regions are the operational zone of an input-output system the balance of which significantly influences both regions in the immediate vicinity of borders and the overall environmental health of a country'. (Benkő and Fodor 1988) This is consistent with the objectives of the financing schemes of both EU PHARE Cross-Border Co-operation (hereinafter: CBC) and INTERREG IIIA, which provided for the possibility that environment issues in the border regions might be addressed after the regime change, in the pre-accession period and after the accession.

It was in the 1980s that research on the environment conducted by workshops in the then COMECON countries focused on possible cross-border co-operation in nature and environmental protection. Since then the number of publications, either discussing or touching on this issue, has increased (Benkő and Fodor 1988; Nagy

2001, 2002; Nagy *et al* 2002); furthermore, this issue has also been integrated into the area development projects of border regions, counties and micro-regions.

Thus, this paper focuses on the changes, as well as their extent, that have occurred in the environmental hazards in Hungary's South Eastern border regions and the neighbouring countries as a result of the regime changes of various types and depths in East Central Europe, the spread of market economy, decentralisation in public administration and the delegation of powers in its wake. It further seeks to investigate how environmental policies and institutions of environmental protection responded to these changes. It also elaborates on envisaged trends in co-operation with neighbouring countries in the field of environmental protection.

Factors Influencing Environmental Protection Issues in the South Eastern Border Region

As Hungary lies in the Carpathian Basin, prevailing North-Westerly winds greatly influence the pollution of certain sections of the rivers that enter the country as well as background air pollution. However, it is predominantly the economic structure of the country and the border regions, the characteristics of the spatial structure of heavy industry and the degree of urbanisation in the cities/towns in the border region that affect the regional characteristics of pressure on the environment and damage to some of its components. Hungary's neighbours also face environmental problems, the nature of which, however, varies from one border section to the next. The underlying reason is that these countries underwent a regime change that was asymmetric and different from that in Hungary, adopted different regional policies and had a different economic structure (e.g. Romania on the verge of a civil war in 1989, a civil war in Yugoslavia in 1991–2000, penury and disparities in living standards, etc.)

With the collapse of the COMECON and the dissolution of the Warsaw Pact, centrally imposed restrictions on international relations were removed. As a result, conflicts, which had been hushed up, could be uncovered and hence became manageable.

Fully compliant with the relevant EU legal acts, Act LIII of 1995 and related statutory regulations provide a post-regime change framework for Hungary's environmental policy. It is of strategic importance that an integrated sectoral and environmental policy take into consideration, to the largest possible extent, the interaction between the environment and the economy (traffic), where environmental protection and the economy can both benefit from a more efficient use of energy and raw material, in which both the economy and society have a vested interest.

The main government body of environmental protection administration is the Ministry of Environment Protection and Water Management, the major responsibilities of which are the protection of the components of the environment, waste management and nature protection. There are twelve environmental protection and water management directorates operational in Hungary, responsible for management and service provision in their respective areas of operation. A further twelve environmental protection and water management supervisory authorities, covering the

same areas as directorates do, have the powers of an authority of first instance each. They check compliance with environmental protection threshold values and grant environmental protection permits. Yet another ten national park directorates are responsible for the management of national parks and protected areas in their respective areas of authority. The environmental protection-related tasks of local governments include sewage and waste management and authority inspection of green area management. They are also responsible for laying down and enforcing local regulations governing air quality.

Central authorities of the institutional system of environmental protection in Romania are the Ministry of Environment Protection and Water Management, local environment protection and water management supervisory authorities (environmental protection directorates) and the Danube Delta Reservation Authority. The most recent change is that forest management has been transferred from the Ministry of Environment Protection and Water Management to the Ministry of Agriculture, Food Industry and Forestry, while forest protection has remained the responsibility of the former. The Ministry of Environment Protection and Water Management incorporates 4 portfolios (water management, environmental protection, general issues, nuclear energy issues) held by state secretaries, high directorates of water management, environmental protection regulations, waste management and environmental protection as well as state supervisory high authorities responsible for environmental policy and legislation, the evaluation of the health of the environment (monitoring) and supervision. There are 42 environmental protection supervisory authorities operational in the country, with responsibilities including issuance of permits for the performance of (registered) activities exerting impact on the environment, conducting environmental impact studies, checking air quality and air pollution in their respective areas of authority, the preparation of seasonal reports for the Ministry of Environment Protection and Water Management as well as attendance to duties involved in the protection of nature and biodiversity. Divisions responsible for international, local resident and civil relations were established within the organisational framework of the individual supervisory authorities.

In formulating its environmental protection policy, Romania acts in compliance with the EU's requirements for legal harmonisation¹. The activities of the institutions over which the Ministry of Environment Protection and Water Management exercises control, e.g. the Danube Delta Biosphere Reservation Authority, the National Institute for Maritime Research and Development and National Environment Radioactivity Monitoring Agency, properly reflect the management of the specific areas of the individual environmental sectors.

In Serbia and Montenegro environment protection was subject to a large number of federal, republic and township level regulations. In consequence, environmental protection and its institutional framework failed to form a single unit and were, therefore, difficult to follow. Messy regulations, comprising over 50 laws and 100 law decrees (at all levels) governing environmental protection and development, resulted in stop-gap solutions and chaos. The Federal House of Representatives passed the act on the basic guidelines for environmental protection in 1998. The Environment Protection Act, effective from 1991, applies to planning and

construction requirements, the protection of air, waters, soil and natural heritage, requirements for noise protection and ionising radiation, the supervision of hazardous waste and the funding of protective measures and supervisory authorities. Inconsistencies in legislation make themselves felt in those areas of environment protection that are governed by mostly uniform regulations in other countries. Statutory regulations are not always complied with and the number of supervisors responsible for ensuring compliance with them is still low. The environmental fines imposed are low and their collection is difficult, due to lengthy legal procedures.

Political changes were conducive to the establishment in Voyvodina in May 2002 of the Provincial Secretariat of Environment Protection and Sustainable Development comprising a business and legal division, a sector responsible for measuring environment quality, another providing supervision, a third responsible for the protection of natural heritage and biodiversity and a fourth in charge of clean production and sustainable development. The sector providing supervision includes the five regional supervisory authorities of environmental protection. In the territory of the province the Republic Institution of Hydrometeorology performs regular analyses of the water quality of rivers, lakes and canals in the area. Monitoring and measuring pressure on the environment is the shared responsibility of health care institutions in regional centres and certain institutions of the Faculty of Natural Sciences. For the time being, however, their monitoring activities are not fully concerted.

It is clear from the above that the institutional system and non-compliance with the law are both to be blamed for environmental problems. Years of an international embargo and extremely severe economic and financial problems led to a situation where environmental protection is not a national priority.

Civil organisations have always played an important role in environmental protection, insisting on raising topical issues. Hence, their impact on public opinion should not be underestimated. Over the past few years they have played a key role in addressing local environmental protection issues, implementing action programmes and urging the preparation of LEAPs².

Despite an effective Hungarian–Romanian Environment Protection Convention, its provisions are not applied to every segment of environmental protection. Due to grassroots initiatives, cross-border co-operation between and a shared approach adopted by institutions of nature and environmental protection now yield an increasing number of results, including shared environmental protection databases, cadastral maps of sources of pollution and bilateral nature protection initiatives.

As the above overview confirms, the institutional system of environmental protection has been transformed in all three countries since the regime change. In its new role as an environmental protection authority, it now operates more effectively. Though the operation of the supervisory authorities is different in all, practice in recent years has confirmed that differences can be easily bridged through negotiations aiming at finding solutions to cross-border environmental protection problems. However, regional co-operation in environmental protection is often restricted to authorities exercising their powers. In Hungary, for instance, there are no municipal offices of environmental protection which could be responsible for developments,

planning and awareness-raising. The same holds true for regions. Although local governments operate maintenance offices responsible for environmental protection, they have authority powers. The same holds true for local governments in Romania and Serbia and Montenegro as far as environmental protection is concerned. In consequence, the actual tasks involved in cross-border environmental protection and the importance of co-operation are only mentioned in the planning stage, i.e. in area development projects prepared by experts commissioned by local governments, or they are initiated by civil organisations, universities and research institutes.

Natural Geographic Characteristics of the Border Regions in the Southern Great Plain

The Serbian-Montenegrin–Hungarian border section in Hungary includes the region between the Rivers Danube and Tisza and the outlying areas of Transistia. In Serbia and Montenegro Bačka and the Northern parts of the Banat border these areas. Stretching as far as the Bihar Mountains, the Körös Rivers with their origin in Romania and the flatland that evolved through the sedimentation of the Maros River constitute the Hungarian side of the Romanian–Hungarian border in the Southern Great Plain.

As to the landscape ecological characteristics of the environment, the Rivers Danube and Tisza as well as rivers, dead channels and a system of protected areas linked to them are key natural heritage. They easily lend themselves to the establishment of what is called ecological (green corridor) networks and have significant recreational potential.

The remains of the flora cover only a limited area, as intensive landscape use turned it into uniform cultivated steppe, with vineyards and orchards in the West and arable land in the East. The former flora is most likely to have been wooded steppe. In sandy areas common forest combination is steppe and saline oak, but there are also wide expanses of sandy steppe meadows and sandy pastures. The drainage systems, built as part of complex melioration, caused particularly severe damage to the saline steppe representing rich natural heritage. Reduction in the amount of precipitation led to the drying out of pastures and patches of woodland; alleys and forest belts were felled, which in turn led to the degradation of ecological corridors.

With respect to landscape ecology, protected natural heritage, constituting a relatively small proportion of the region, can be found in three distinct nature protection areas: those along the River Danube, those in Subotica and Kiskunság (Little Cumenia) and along the Rivers Tisza, Maros and Körös. Despite homogeneous natural characteristics, there have been contradictory developments in the state of the protected areas due to differences in landscape management, the activities of the environmental protection authorities operational in the individual neighbouring countries and the success (or the lack of it) of environmental protection investments.

The nature protection area along the River Danube covers contiguous areas in the Danube–Dráva National Park (the Gemenc Forest) in Hungary and along the Upper Danube in Serbia and Montenegro. The areas on the right bank in the latter, along

with Kopačevo Meadows constituting part of Croatia, are prioritised areas of environmental protection with unique oak groves and their combinations (with e.g. silver and black poplar and hornbeam).

The Subotica–Kiskunság protected area covers the area of the Subotica Forest Regional Park in the immediate vicinity of the Serbian and Montenegrin and Hungarian state frontier, adjoining woodland in Hungary, the Körös Brook area recommended for protection, the Palić–Ludas Regional Park and the unique sanctuary of the Szelevény puszta. The protection of the area is substantiated by its unique geomorphologic characteristics and the recreational opportunities that the environs of cities/towns offer.

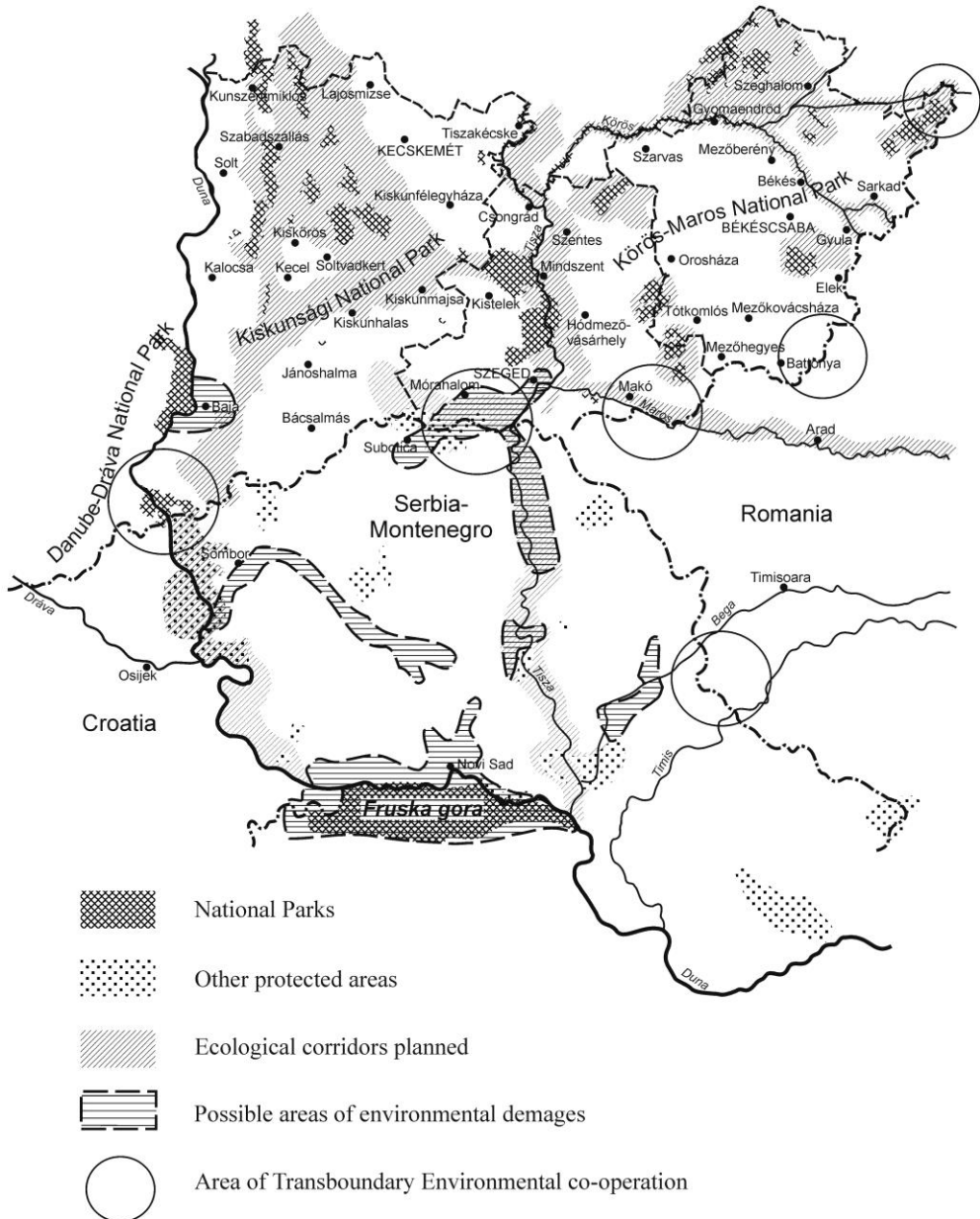
The patch-like contiguous protected area of the Tisza–Maros–Körös region with numerous expanses includes the island-like territories (the Körös–Maros National Park) of the ecological (green) corridors, outlined above, the area (the Serbian Environment Protection Institution) along the River Tisza in Vojvodina and the contiguous protected area (the Arad Environment Protection Agency) along the River Maros. From the aspect of the preservation of biodiversity, the dendrological parks Valea lui Mihai³, Şimian, Cherechiu, Săcueni, Oradea, Cefa and Ciumeghiu and a protected territorial unit of oak groves in the Romanian section of the border region are of key importance. The Oradea Environment Protection Agency and the Directorate of the Körös–Maros National Park are planning to create shared habitats in the Biharugra–Cheresig region⁴.

Characteristics of Environmental Protection in the Border Region

Primary reasons for the emergence of cross-border environmental problems include the impacts of changes in the structure of the economy, infrastructure and settlements brought about by the changes in state frontiers. These impacts manifested themselves mainly as the consequences of command economies and urban construction models in the socialist era following World War II (e.g. there are five sugar refineries, reduced to vegetation, that exert pressure on the environment in the townships in the vicinity of the border region in the northern part of Vojvodina). In the 1970s and 1980s a spatial structure tailored to the economic needs of the individual countries evolved in the border cities/towns in all three countries, which led to the territorial concentration of the sources of direct and indirect pressure on the environment.

Based on the density and intensity of potential and active sources of pressure on the environment, a contiguous ‘critical environment’ area of the Szeged–Subotica–Kanjiža ‘triangle’ and areas along the Hungarian–Romanian border where pressure on the environment is exerted across the border can be delimited (Figure 33.1). A further special feature of the region is that those areas that are endangered in terms of environmental protection have ‘encroached’ on cross-border environmental protection areas in some form or other, adding to the existing complexity of the problem. Such areas include e.g. the Baja–Mohács region, where protected areas in

Figure 33.1 Environmental protection tasks in the Hungarian-Yugoslav-Romanian border zone



Source: The author's own compilation

the Danube–Dráva National Park are exposed to pressure from cities. The Szeged–Subotica⁵–Kanjiža triangle along the River Tisza practically coincides with the border section of the ecological (green) corridor, the nature protection area for tourist industry purposes and a large part of the Subotica–Kiskunság protected area.

The delimitation of the Szeged–Subotica–Kanjiža environmental protection area is attributable to the pressure arising from the industries in Szeged, Subotica as well as the Serbian and Montenegrin settlements along the River Tisza and the traffic along the communication axis connecting the areas.

The concentrated impacts of the sources of air pollution of mineral oil extraction and food industry in Szeged and the emission indicators of traffic-induced pollution reflect an ongoing (1991–1999) emission of NO₂ in an amount that exceeds threshold levels. Of the county seats and the industrial settlements under review, Szeged was second after Győr in terms of NO₂ pollution during the 1996–1997 heating period. The value of settling dust is, on average, 50% higher than the approved threshold value (16 mg/m²/30 day). Pressure on the environment is especially high in the summer. As to hovering dust, its amount exceeds the relevant average threshold level (50 µg/m³) by 80–100%.

Referring to the danger of lead pollution, an average 40–100% excess of threshold value for lead pressure exerted by traffic had fallen to an average 30% at points of measurement in Szeged and its environs by the late 1990s.

Chemical industry (artificial fertiliser manufacturing), food industry, metallurgy, electrical equipment manufacturing and silicate manufacturing (Kanjiža) are likely to maintain the current upswing in their development in the future as well. When there is strong South Easterly wind, torch-like smoke endangers Hungary's border regions, as evidenced by on-site interviews.

The water quality of the River Tisza is affected by untreated discharge (there is no sewage water treatment facility) at Szeged in the southern border region, the dam at Bečej along the Serbian and Montenegrin section, industrial plants along the River Tisza (the manufacture of pulp, paper and paper products at Novi Knježevac) and the pollution of the water of the River Maros on the Romanian side. The amount of dissolved oxygen decreases at the estuary of the River Maros and at Szeged, where untreated waste is discharged, while that of organic and inorganic material and bacteriological pollution increase. The water quality of the river is better further south from the Serbian-Montenegrin–Hungarian border. The amount of dissolved oxygen is slightly higher, while BOD₅⁶ is lower. Ammonium content is many times over the approved threshold concentration value. Oil spills, resulting in the death of fish, are also frequent. All this restricts the utilisation of the river for tourist industry and recreational purposes. The cyanide pollution in Romania a few years ago hit the Voyvodina section of the River Tisza less hard, as the concentration of the pollution was lower there.

On the Serbian and Montenegrin side, pre-treated urban waste water is used to ensure water supply for Lakes Palics and Ludas because of the lack of precipitation. As purifiers are unable to filter phosphorous and nitrogen, eutrophication means considerable pressure on these lakes. Based on organic pollution, the water quality

of both lakes either falls into Category IV⁷ or cannot be categorised (expressly polluted) at all; based on the number of *coli* bacteria it falls into Categories I and II.

This border region has considerable thermal water reserves in Szeged, Palić and Kanjiža. Their utilisation (e.g. spas and the heating of houses, greenhouses and plastic tents used as greenhouses) is, however, associated with the serious problem of the currently rather costly re-compressing or phased utilisation of thermal waste water. This is not a local problem either, as thermal water usually exerts thermic pressure on border waters.

Baja and its environs pose a threat to the nearby areas of the Danube–Dráva National Park through industrial sewage discharge (food industry) and air pollution. Mohács included, pressure on the River Danube is high. In consequence, indicators of water quality are much worse here than along the mid-section of the river. Based on average qualification, the water quality of the River Danube falls into Category III along the Serbian and Montenegrin section, where the river leaves the country, which points to a more polluted state than when it enters it. BOD₅ and COD⁸ values are higher at Hercegszántó (5 mg/l) than at Rajka along the Northern border (2 mg/l). Compared to the remaining sections, the number of *coli* bacteria, providing an indication of the extent of bacteriological pressure, is also the highest here, with phenol and ammonium pressure falling into Categories III and IV.

The Hungarian–Romanian border region is that part of the Southern Great Plain border region where cross-border environmental problems are asymmetric due to the rivers flowing from the direction of the Carpathian Mountains towards the Great Plain.

The water quality of the River Berettyó varies, with pressure on it from silt from oil mining along the border section where it enters Hungary. Further down in the south, the Fehér and Fekete Köröses are bacteriologically polluted. The water of the Maros entering the country along the southern border section is polluted by organic material that is difficult to decompose.

The pollution of these rivers can be attributed in part to the fact that the effectiveness of waste treatment facilities is unsatisfactory in both Hungary and Romania. It is often the case that waste treatment is confined to mechanical treatment. More frequently mechanical treatment is combined biological treatment. However, there was no third stage of treatment in the late 1990s.

In Arad County, Romania, air pollution is mainly attributable to power stations operating on a wide variety of fuels and vehicle traffic. In order that polluting dust can be absorbed, the chimneys of power stations have been equipped with electric filters. Nevertheless, based on measurement values in the past 10 years, the pressure exerted by settling dust from industrial activities concentrated in the county seat has been exceeding the relevant threshold value continuously. Commissioned in 1993, the power station operating on lignite led to a rise in SO₂ and SO emission.

One of the most conspicuous implications of changes in CEE traffic and transport within the category of increasingly busy international border traffic is traffic-induced pressure on the environment in all the regions where frontier stations are operational.

The political regime change and market economy led to the dismantling of socialist industry. As a result, the proportion of industrial pollution decreased in Arad and Oradea as well, although average-induced pollution is common along the rivers (e.g. the Sebes Körös). Communal pressure (waste and sewage) is the most neuralgic issue in the entire region. The infrastructure of waste management is obsolete. Waste disposal facilities lack special equipment (e.g. layers of insulation, collection and purification of escapage, biogas collection and equipment monitoring the amount and quality of the waste disposed), which leads to the pollution of several canals and rivers crossing the border.

The water reserve of the Maros alluvial fan along the Romanian–Hungarian border, which provides water supply for over 20 settlements in Békés County, meets, in its current natural state, drinking water requirements. The bulk (70%) of the water supply for the water reserve is from Romania (the Carpathian Mountains). However, the direction of the supply may also be the direction of pollution, as the water reserve is only partially protected, and surface pollution (settlements in Arad, Bihar and Temes Counties) both in Hungary and Romania may increase its vulnerability significantly. Observations over the past few years and opinions invited from experts at the environmental protection supervisory authority in Gyula confirm that a significant amount of underground pollution is drifting from the direction of an artificial fertiliser manufacturer in Arad, which is no longer operational, towards this water reserve. A favourable development is that the Romanian party was contacted on the issue in 1997, and both parties expressed their intention to work in co-operation in order to resolve the problems that may arise. Within the framework of a Hungarian–Romanian Water Management Technical Joint Committee, conciliation talks were conducted, as a result of which an international project proposal was put forward. PHARE CBC also provided financial support for research on the extent to which the Maros alluvial fan is endangered.

All three countries, settlements in the border region, their respective local governments and the Autonomous Province of Voyvodina placed the addressing of cross-border environmental protection issues in the spotlight after the political regime change, i.e. in the second half of the 1990s. The intention of the parties is still in its early stage and is more like an initiative. Nevertheless, it indicates grassroots initiatives to remedy shared woes and achieve common goals. The Danube–Körös–Maros–Tisza Euroregion, i.e. working relationship between the Alliance of Local Governments Along the River Tisza, three supervisory authorities of environmental protection, water management and nature protection, the directorates of three national parks, environmental protection supervisory authorities in Romania, two regional environment protection supervisory authorities in Voyvodina and the Provincial Nature Protection Office, stands to be an especially successful framework of co-operation.

Sustainable Addressing of Environmental Issues: Perspectives of Development in the South Eastern Border Region

Sustainable environmental protection and environment management can be carried on through joint actions taken as a result of integrated social and economic strategies. Reliable mechanisms of environmental regulations can be achieved through connecting various territorial and sectoral ways of prevention and through doing so at an international scale.

The Hungarian–Romanian Environment Convention lays down a framework for joint protection and development and identifies areas of co-operation in environmental protection (Article 2).

The Directorate of the Körös–Maros National Park has been working in close co-operation with environmental protection supervisory authorities in Arad, Oradea and Timișoara, also responsible for nature protection, since 1997. The objectives of the co-operation are ongoing liaising and the creation of a shared environmental protection area (e.g. shared habitats in Biharugra and Cheresig).

Albeit unilaterally, documents aiming at the development of the area under review have put forward target projects based on these principles. Flood and water reserve protection projects, the envisaged establishment of cross-border zones of air quality protection as well as plans for cross-border ecological (green) corridors and environment-friendly corridors of traffic dovetail the implementation of tri-lateral environmental protection co-operation. This is evidenced by projects preparing actions and interventions financed by PHARE CBC (Table 33.1).

Table 33.1 Environment projects supported by PHARE (1998–2000)

Name of project	Beneficiaries	CBC support (EUR)
Formulation of the regional development concept of the Hungarian–Romanian border region	4 counties along the border	270,000
Feasibility study for the establishment of a centre for agrarian technology innovation in Csenger	Szabolcs-Szatmár-Bereg County Local Government (Hungary)	18,000
Development of a hydrological monitoring system on the River Berettyó	Transtisia Water Management Directorate (Debrecen) (Hungary)	210,000
Conciliation of methodological measures concerning air quality protection chain measurements	Transtisia Environment Protection Supervisory Authority (Hungary)	9,000
Methodology of the preparation of area development strategies	Szabolcs-Szatmár-Bereg County Development Agency (Hungary)	9,000

Source: PHARE Office, Békéscsaba.

The Area Development Concept of the Hungarian–Romanian Border Region approved in 1999 was the first to identify the complex tasks of environmental and nature protection and set the objectives of water management co-operation. Activities eligible for financial support and currently crucial to the prevention of pressure on the environment and to the short- and medium-term development of the border region have been included in the ‘Co-operation for flood protection and inland drainage’, ‘The protection of ground and underground waters and establishing water management co-operation’ and ‘Co-operation aimed at protecting natural heritage’ projects.

The objectives laid down in the environment protection chapter of the Development Strategy of the Western Romanian Region completed in 2004 fully meet EU expectations, as evidenced by ‘Approximation to EU standards’ and ‘Application of the basic principles of regional-level sustainable development’ and ‘Towards enhanced social environmental awareness (private and public actors)’, i.e. the strategic objectives (*Objective Strategice*) and regional priorities (*Prioritate Regionale*) worked out to implement the objectives laid down. There is a separate operative programme identifying the tasks linked to the protected areas in the border region on the Romanian–Serbian and Romanian–Hungarian sides. All environment protection operative programmes will be worked out and implemented (a regional waste storage system meeting public health requirements, assistance for NGOs to establish a regional forum, an integrated regional system of waste recycling, a regional plan for the protection of air quality and a regional programme of environment education) in keeping with regional characteristics.

Despite the lack of a formal agreement on environmental protection between Serbia and Hungary, ‘wait-and-see’ development projects include programmes that can be launched through PHARE CBC, INTERREG IIIA and CARDS support.

‘The programme for co-operation in water and landscape management’ within the framework of ‘The Operative Programme of Border Zone Development in the Southern Great Plain Region’ (2000) aims to broaden co-operation in flood protection, give momentum to related envisaged projects and bring tasks involved in inland drainage and water management in line with plans. The project recommends exchange of ‘experience in nature protection and landscape management’ and ‘co-operation in establishing zones allowing for various degrees of pressure on them’. Imminent co-operation aimed at compliance with EU regulations includes enhancing co-operation between phytosanitary and veterinary services, concerted protection against epidemics and the establishment of a forecasting system of the spread of phytosanitary and veterinary diseases.

In the Economic Development Strategy of the Autonomous Province of Vojvodina (2003) cross-border co-operation in environmental protection mainly involves the joint sustainable care of areas along the Upper Danube and the protected sandy areas at Subotica–Horgoš through the adoption of identical methods. The strategy emphasises the national and international importance of the protected areas along the border, referring to the ecological contiguity of border region areas, the joint care, management, protection and sustainable utilisation of which it has set as its objectives. The objectives of these programmes are

- identification of natural heritage of international importance and its comparison with that in cross-border areas;
- regional level promotion of programmes for and sustainable use of resource protection in the border region;
- compliance with international standards and requirements in the protection and use of natural resources.

There are certain parts of the strategy that adopt a step-by-step approach to the tasks to be performed involving the possible identification of shared protected cross-border areas, the prioritisation of the preparation of a study on the identification of protected heritage in the border region and the implementation of sustainable resource management simultaneously with tourist industry-related development, the key role of civil organisations and the importance of decision-making on environment protection.

A special feature of the co-operation so far has been the Subotica–Szeged–Acron (USA) agreement. Its crucial role in the European Stability Pact has provided for the possibility that Szeged can act as a co-ordinator of the aid provided by the city of Acron, on the basis of a development project and a trilateral agreement. Relying on the assistance from the foundations in the American city, this tri-lateral co-operation strives to provide solution to issues including sewage disposal and treatment, the development of the system of water supply and waste utilisation technologies in Subotica.

Decentralisation trends after the regime change provided for the possibility that, in addition to neighbouring counties, smaller settlements and micro-regions could establish relationships with one another. Examples of such relationships can be cited in connection with co-operation between the micro-regions in two border regions (between Kanjiža and Mórahalom micro-regions; Salonta and Sarkad micro-regions). The objectives of co-operations include environmental protection activities, the development of cross-border relations and the submission of joint applications for financial support.

Since the 1990s, when the ban on certain activities of civil organisations was removed, a number of green civil organisations (e.g. environmental associations including Humán Milleneum, Horizont, Ciconia and Csornai Richard, TERRA'S Association for Natural Food and Citizens' Association for Environment Protection, just to name a few major ones) have been established that have replaced heavily centralised and controlled organisations, taking actions for the protection of natural heritage and the success of raising environmental awareness. In summer, they recruit young people and provide education on environmental protection for them. They also involve members of the civil organisations in Hungary, Romania and Slovakia.

Participants in Hungary include water management authorities, environmental protection supervisory authorities, cross-border water management associations, the regional working groups of an agrarian environmental protection programme, persons responsible for the spatial planning of micro-regions, phytosanitary, veterinary and food inspection offices, the office of the regional commissioner responsible for the agrarian environmental protection programme and development associations along the border. Shared actions of Romanian and Hungarian civil

environmental protection organisations are becoming increasingly frequent. They also attend international conferences and deliver joint lectures outlining shared problems.

Role of Ecological Green Corridors in the Southern Great Plain in the Sustainability of Biodiversity between the Carpathian Mountains and the Balkans

Ensuring the international competitiveness of the border region in the Southern Great Plain, which is the ultimate objective of area development in the region, is only feasible in a stable economic and social environment and through the concerted and sustainable utilisation of natural resources to the mutual benefit of the parties as well as in an attractive natural setting.⁹ Furthermore, through the provision of protected natural heritage and a network of ecological corridors that comply with EU requirements, the border region is an important link between the Carpathian and the South Eastern eco-regions, as it is part of networks of nature protection and ecological corridors. There is an entire network of protected areas of local and national importance (e.g. national parks, districts of landscape protection and nature protection areas) in the border region, which further justifies the need for complex landscape rehabilitation in order that their continuous protection can be guaranteed. This can be implemented within the framework of bilateral relations between the directorates of the Danube–Dráva, Kiskunság and Körös–Maros National Parks, the Serbian Nature Protection Agency and the Environment Protection Directorates in Oradea, Arad and Timișoara (Figure 33.1). Tri-lateral proposals include:

- the establishment of an ecological green corridor linking the Danube–Dráva National Park along the Danube in the Southern Great Plain with the nature protection area serving tourist industry purposes along the Upper Danube in Serbia and Montenegro and operation in accordance with its intended purposes;
- the joint care of the protected areas in the Hungarian border region (the Körös Brook Nature Protection District) and in the Serbian and Montenegrin one (the Subotica Forests, the Palić–Ludas Regional Park and Szelevény puszta) and turning them into contiguous protected cross-border areas;
- the establishment of the next section of the Körös–Tisza–Maros ecological (green) corridors with its direction towards Romania and Serbia and Montenegro¹⁰ (e.g. the fish ponds at Biharugra and the Maros floodplain).

Conclusion

Although its natural characteristics are similar to those of its broader environment and despite a shared history, the Southern Great Plain region emerged as a result of territorial fragmentation and diverse social and political development and regimes. Its regional characteristics are based on the need for co-operation and area development that are in keeping with the European system of values, which is also reflected in environmental protection.

There have been dynamic changes in legislation on and the institutional system of environmental protection that evolved due to the political regime change in the region, approximating to the EU's environment policy in all three countries. While approximation is nearly complete in Hungary, principles of development only exist in development documents in Romania and Serbia and Montenegro.

Despite differences, trends in joint cross-border developments are forward-looking, as attested to by mirror documents referring to indispensable joint developments (e.g. the protection of water reserves, regulations governing water quality, co-operation in nature protection, first response, co-operation between, the joint education of environmental protection professionals and eco-tourism). Furthermore, regional authorities have established and maintain favourable working relationships.

The region is divided into environmentally protected units along the River Danube, the Rivers Tisza–Maros–Körös as well as the sand dunes lying between them. Transforming them into one organic unit is justified by the uniform ecological and tourist industry characteristics of the region and so that biodiversity can be sustained. As it is the very characteristics of the rivers here that also transformed these contiguous areas into industrial and communications areas and corridors (the Danube communications corridor as well as the Subotica–Szeged and the related Tisza–Maros corridor), they are also exposed to a number of local and cross-border dangers posed by pressure on the environment as a result of vigorous urbanisation and environmental risks arising from the differing rates of development of environment-friendly infrastructures. As to the problems that have arisen, the launch of research into harmful environmental effects (Baja, Mohács and Szeged as well as Subotica, Oradea and Arad), possible cross-border pressure on the environment and their prevention, i.e. the establishment of a monitoring system, could be a step forward.

The conflicts that may arise between areas valuable in terms of landscape ecology and urban areas exposed to heavy pressure should be resolved through joint actions based on consensus within the framework of the Southern Great Plain Regional Development Agency, the Area Development Institute in the Western Region of Romania, the Executive Council of the Province of Vojvodina and the Danube–Körös–Maros–Tisza–Euroregion¹¹. EU funds¹² may provide for the possibility that planning and resultant environmental management developments can be implemented.

NOTES

¹ Environmental Performance Review of Romania (2001)

² Local Environment Agenda Program

³ Settlements in Romanian border region occurring in this paper are as follows: Arad, Cefa, Cherechuiu, Cheresig, Ciumeghiu, Salonta, Săcueni, Şimian, Oradea, Timișoara, Valea lui Mihai.

⁴ See in 'Data on Environment Protection in Békés, Arad and Bihar Counties' (1999)

- ⁵ Settlements in Serbia-Montenegro occurring in this paper are as follows: Bečej, Kanjiža, Novi Knježevac, Palić, Subotica.
- ⁶ Biological Oxygen Demand
- ⁷ Based on various indicators, the quality of ground waters is included in 4 categories. Under this classification, waters included in Category I are pollution-free.
- ⁸ Chemical Oxygen Demand
- ⁹ Area Development Concept of the Southern Great Plain (1998)
- ¹⁰ An eco-corridor along the entire length of the River Tisza as far as its estuary
- ¹¹ 4th priority of the strategy of the Euroregion in the pipeline
- ¹² INTERREG IIIA

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