



**EUROPEAN CHALLENGES
AND HUNGARIAN RESPONSES
IN REGIONAL POLICY**

EUROPEAN CHALLENGES AND HUNGARIAN RESPONSES IN REGIONAL POLICY

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1 FROM THE MICRO-REGIONALISATION TO THE RESEARCH OF THE CO-OPERATION OF THE EUROPEAN REGIONS

(Fifty years of the Transdanubian Research Institute)

GYULA HORVÁTH

Historical review

The roots of the conditions for founding the Transdanubian Research Institute, established 50 years ago, can be found in the East-Central European political development following World War I, and in the contemporary academic life in Hungary.

Complex regional plans were developed by research institutes in Munich and Stuttgart for creating a scientific background for the advancement of the German large space economic policy in order to make South-East Transdanubia a part of the Third Reich under the name of Schwäbische Türkei. The first institutes representing the ideology of this programme appeared in Transdanubia at the end of the 1930s. This was the danger against which the establishment of the Institute for the Minorities of the University in Pécs was called for. Several newly founded journals also tried to stop the dissemination of the ideology of the large space theory, as well.

Following the termination of the Faculty of Arts in Pécs, the opposition wished to establish a scientific institute that could support everyday life: public administration, the economy, and social policy, by its research. The plan was developed on the realisation of research organisations that, in order to develop scientific research, besides institutions of higher education, independent scientific institutes are needed for theoretical, long-term research programmes.

The idea of the Transdanubian Research Institute was conceived as a result of the interaction of science, practice and politics. The Government of Baranya County submitted its proposal to the Upper House of the Parliament with the following reasoning: "... the objective of the institute would be to investigate the history of settlement structure, and the biological, political, economic, social and intellectual life of the population living now and earlier in the Transdanubian region, and by its revelation to awake all social strata of the region to Hungarian self-consciousness, and by enhancing the right direction, to lay down future goals and the ways of fulfilment" (*Szabó Pál*, 1945). Similar reasons led to the establishment of regional research institutes in other East-Central-European regions. Around this time the Baltic Institute of Torun in Poland, the Silesia Institute of Wrocław and the West Institute of Poznań, and the Silesia Institute of Opava in Moravia were founded.

The Ministry of Culture, founder of the Transdanubian Research Institute, however, was not able to provide the agreed financial support needed for its operation. At that point the director of the institute visited the counties and towns of Transdanubia asking for support. It bore a political significance that the local governments and work places donated thousands of Pengős, and the institute could start to develop its scientific programmes. Thus the Transdanubian Research Institute was not only for Transdanubia, but also it was founded from Transdanubian own financial support.

In 1955 the institute became part of the network of the research institutes of the Hungarian Academy of Sciences. Basically, it worked in the fields of physical and economic geography, ethnography and history. The need for linkage to practice and politics came from the mentality of that time (*Rúzsás*, 1964).

The research institute had significant results in the three above mentioned disciplines and the research and organisational outline of an institute working in several disciplines began to evolve. That was the time when a regional research programme started to investigate the natural endowments of the South-East Transdanubian region. In the 1960s it was supplemented with the landscape evaluation field of the physical geography, satisfying more the needs of the social sciences and practice. The multiple successes of the manifold research on the general rules of the surface shaping dynamics of the processes of physical geography served scientific progress, and had a direct impact on the practice, the innovating work of the South Transdanubian water management companies and companies in mining industries. The examination of the anthropogenic geoprocesses and their deleterious effect on the environment joined as a new fields to the existing themes (*Erdősi*, 1987; *Lovász*, 1972a).

Related to the economic geographical themes of the 1950s and 1960s, the results of research on the spatial distribution and development of settlements, and the regional structure of the construction sector, were utilised. The institute contributed to the modernisation of the regional public administration system of Baranya county, and the elaboration of the development plan of the settlement network in the South-East Transdanubian counties by its theoretical and methodological research on small and sub-districts and by the concrete proposals based on it (*Kolta*, 1961, 1964).

In the beginning, the main research field of history was the coal-basin of the Mecsek (*Babics*, 1967). Later the exploration of agricultural history joined the investigations on the history of factories, and the industrial structure of South-East Transdanubia (*Rúzsás*, 1954, 1957, 1966; *T. Mérey*, 1965). Significant results were accomplished in the examination of the interdependent villages, ethnic groups and the interaction between local cultures (*Lovász*, 1972b; *Rúzsás*, 1972).

This phase was characterised primarily by the examination of small regions attached to counties and certain South Transdanubian regions. The results of the work based on this concept, and the well established methodology of micro examination, having inspiring power even today, created a professional prestige for the institute that, although the centralised administration of science attempted to take over the institute on the grounds of rationalisation, all the efforts ended in failure.

In the meantime a new era in the institute's history began. In theory, the political decisions of the early years of the 1970s gave priority to the development of complex social science research institutes in the countryside, and the new government decrees on regional and settlement development offered new subjects to research. Based on the latter and on the

concept of the internationally well known social science researcher director of the institute, *Ottó Bihari*, member of the Hungarian Academy of Sciences, regional research gained new interpretation in Hungary.

On the one hand, the research on regional and settlement development which used to be considered mainly a planning practice, gained the rank of fundamental research in the Academy. By this, the opportunity arose to scientifically investigate regional and settlement development, for the manifold exploration and professional criticism of regional centralisation, and to establish the theory of regional counterweights in the monolithic political institutional system (*Bihari*, 1980; *Horváth*, 1983; *Pálné-Rechnitzer*, 1979; *Tóth*, 1980, 1981). The second significant innovation was the introduction of multidisciplinary research. Previously representatives of different professions worked together but independently in the Transdanubian Research Institute. For the first time in the history of the Hungarian social sciences, a research institute was organised to work on common research programmes with a multidisciplinary approach. Thirdly: this was the first institute dealing with social sciences in the countryside, that endeavoured to take the role of a national research centre.

Ottó Bihari had got one decade from his fate to establish the new type of institute. This decade was the period of the deepening economic crisis that did not favour the development of intellectual centres in the countryside, and it significantly curtailed the fulfilment of the institute's concepts.

Despite the difficulties of the 1980s based upon the concept of the internationally well known leading personality in regional studies, professor *György Enyedi*, and following the organisational restructuring of the institute (the national network of regional research was organised so that on the basis of the Transdanubian Research Institute the Centre for Regional Studies was created), its research programmes increased and the scope of the scientific investigations grew gradually. This was the time when several research programmes started, the investigation of the regional development and policy of the developed market economies, the empirical and theoretical examination of the municipalities and regional public administration, the investigation of the impact of the pulling sectors of modernisation (transportation, telecommunication, other sectors of infrastructure, culture) on regional development, and the scientific foundation for the regional and institutional system of environmental protection. Just before the change of regime, the results of these research programmes and the gradual integration of the institute into European regional research life provided enough scientific background material upon which the institute could articulate its opinion on regional policy for the transition to market economy. Weighing the European challenges it could propose the forms of regional decentralisation serving the Hungarian modernisation, its organisational structure and regulatory objectives (*Erdösi-Lehmann*, 1984; *Erdösi*, 1991; *Faragó-Horváth-Hrubi*, 1990; *Faragó-Hrubi*, 1988; *Fodor*, 1990; *Hajdú*, 1987; *Horváth*, 1989, 1990, 1992).

Preparing this conference we were motivated by two aspects: on the one hand, having some practical backup information, we wished to show our research results to the international academic society; on the other hand, we are looking for new inspiration for investigation on the regional relations of the Hungarian market economy, on the operation of the regional decision making processes with many actors, and on developing European regional co-operation. Besides all these, it is our intention

to make our institute one of the centres for exchanging ideas and experiences on European regional policy. In addition, we hope that since Pécs is a significant intellectual centre of Hungary, professional and academic tourism and the active participation in the division of labour between European cities will become an element of the strategy for urban development.

What are our most important results, what kind of tasks are in front of us which we wish to discuss in this conference?

Outlines of a new Hungarian regional policy

The first big issue consists of the characteristics of regional policy, its objectives, and its *means and institutions* in the market economies and in the expanding European integration.

In advanced market economies regional policy is an inherent element of the philosophy and practice of the organisation of the state. It is interpreted as the integration of the objectives of forming regional structures and the means and institutions as a whole, needed for the realisation of these objectives.

In the developed market economies the elements of regional policy evolved as the result of a long organic development. Though certain elements of policy gained various weights during the different phases of economic policy making, due to the differing effect of the governmental policy ideas interpreting differently the scope of the state's role and the forms and means of state influenced changed, there was a clear outline of the trend toward a decentralised, multi-actor regional policy. The appearance of the regional policy as an integral factor in the state policy is guaranteed by legal standards. These higher level legal regulations lay down the form of the role of the state, the division of labour between the actors participating in regional development, the organisational mechanism of interest harmonisation, and the financial structure of regional development.

Parallel with the continuous renewal of national regional policies, significant changes had taken place in the supranational regional policy of the European Communities. The Single European Act of 1987 laid down the main principles and means of the regional policy of the Community as follows:

- to mitigate the disparity between the regions and differences in their chances due to delayed development;
- to establish a harmonised economic policy at national and Community's level and structural means;
- to co-ordinate the various financial sources for regional development.

Due to the declaration of policies aiming Hungary's integration efforts at the developed Europe, the objectives and means of the Hungarian regional policy must be justified to European standards. Concerning the objectives, during the last two decades the Hungarian regional policy was formulated in documents that were modern even according to international standards. The means and the institutional system, however, were determined by the centralised relations of the command economy. Though some of the elements could operate, the dominant sectoral guidance and the autocratic political regime hampered the development of a consistent regional policy. That is the reason why we could only talk about regional and settlement development in the past.

The change in the political regime is not the only reason for the transformation of Hungarian regional policy. The Hungarian processes influencing regional development have arrived to a significant conjunction point. In East-Central Europe the demand for three fundamental changes accumulated: first, following industrialisation the transition to the post-industrial phase, second, restructuring and changes in technology, third, change of the social paradigm.

Not only the ownership structure demanded a change in the political regional model, but also the fact that the previously (Europe-wide) pursued extensive growth-oriented, regional development, operating with centralised redistribution, exhausted its reserves. Its objectives and means became inadequate to the market.

The new economic paradigm, based on small and medium-sized enterprises, instead of the large plants of Fordism, had a significant effect on the development of regional policy. The established consensus broke up. The economic restructuring stood in the centre of the economic policy of central governments' interest. The cut of the central budget, the newly favoured economic sectors (tertiary, and quaternary sectors) forced the traditional regional policy be re-evaluated. The traditional solutions (dominant role of the state, the incentive system directed from above to below, capital investments etc.) lost their previous economic and political motivation and the outline of a new regional strategy evolved. It is not accidental, that in the 1970s almost all of the western European countries formulated a new regional development concept or significantly altered their previous strategy (Horváth, 1993a).

The new policy demanded changes in two dimensions. First, the transformation of the central governmental structure was needed. On the other hand, the formulation of an adequate political administrative framework became indispensable at the regional level.

Simultaneously with the changes in regional policy, the second big wave of the European public administrative reform process took place. Following a drastic settlement integration, it focused on the transformation of the medium territorial level, with a little simplification it meant the institutionalisation of regionalisation. The European regionalism that had historical roots for centuries, has been reinforced by the development processes following World War II, as well. There were several reasons why regionalism could become an impressive force:

- 1) The technical needs of the modern state. The large regional units could satisfy the needs of regional planning and development, and this was the field for harmonising the differing sectorial interests, too.
- 2) The above mentioned characteristics of the regional-interregional policy.
- 3) The strengthening of the regional self-determination movements.
- 4) Regional economic needs, business interest endeavours.
- 5) The increased role of the common harmonised regional policy in the European Economic Community. Concerning the European common regional policy, the public administrative level under the national governments gained key roles. This is reflected in the methodology of the regional policy of the Community.
- 6) The development of the new division of labour in the institutional system of the European Communities according to the spirit of the Single European Act. The draft of the Regional Charter of the EU has been prepared. In the introduction of the document it is stated that the regional policy of the Union can be realised most efficiently through the participation of autonomous regional institutions having competent authority.

- 7) The development of a co-operation between regional economies in Europe. The fact that the European economy is becoming global and international, created new forms of regional co-operation. Following the formal steps, it became apparent that the different functions based on the national legal systems of the co-operating public administrative units hinder effective co-operation in all forms of collaboration.

Regional policy and public administration

The second issue is *the role of the spatial public administration units and settlements, particularly towns, in regional development.*

Hungary's public administration consists of local governments in 3,200 settlements, and 19 county governments.

The following factors support the necessity of the further development and review of the current situation of the regulations at the medium level:

- a) The experienced disintegration signs within the sphere of local governments suggest that there is a lack of linkages of legal and interest systems, and the idea of a model building up only from below and voluntarily proved to be erroneous and irrational.
- b) The system of the local governments left those tasks masterless that required a solution at the regional level, and left ground for state centralisation and de-concentration.
- c) A part of the deconcentrated state administration, infiltrating to the vacuum of the local governmental management at the medium level, is working on tasks not related to the organisation, and because its structure is divided according to industries, this caused a lack of co-ordination, information and interest harmonisation.
- d) The disintegration of the local governmental system, and the disfunction of the deconcentrated public administration strengthened the centralising efforts of the government, and the outline of a competing integrated model of state and local governments evolved at regional level under the slogan of "regionalism versus county".
- e) The trend of state dominance at the medium level is counter to the European development and the needs of European integration. The correction can be made by strengthening the local governments at the medium level, thus the county.

The division of functions between the governments of the counties and the settlements does not primarily occur at the expense of the settlements. The small regional and urban gravity zones and their (not yet existing) associations can be made suitable for running and organising the institutions and services. A restriction of the regional functions of the cities can not be justified either. The activities of the county would include those in the field of spatial planning, co-ordination, organisation of the economy, and regional interest representation to the government and the regional de-concentrated sphere, for which the county is the most suitable, due to its size, legal and political status.

The source of the aversion towards the counties was rooted primarily in their re-distribution activity. It is evident that they cannot play such a role in the future. How-

ever, the efficiency of and the democracy in current central decision making on redistribution would be strengthened if, beside or instead of the ministries, the counties participated in the regional co-ordination of the state development support, thus harmonising the development strategies of the settlements and the county (*Pálné-Csefkó*, 1993).

If the counties could undertake an active role in regional policy the question of the current county structure and size arises. It is our conclusion that it would not be practical to implement a radical regional reform during the first phase of the reform of the local governmental system from political, public administration, sociological, and regional science aspects. For the reality of the regional alternative we do not have enough empirical and professional information, and it is very difficult to predict the regional tendencies for the future. The current needs of regional integration can be satisfied by the co-operative, association of the counties, the different regional agencies, the institutions of the regional market, and maybe by competent regional level state organisations.

For the long run, considering the deepening co-operation with the European Union and our aim to join to the Community, the new objective of the Hungarian modernisation could be the development of a system of regional public administration consisting of larger units.

The institutionalisation of the medium level (at present with the county) within the regional political and regulatory system, can be realised decisively for and by the operation of the regional development function. Despite the fact that concrete content of the regional development function may differ according to the regional and settlement endowments and needs, and be regionally differentiated due to the established system of division of labour in regional regulation, their fundamental content can be outlined. These functions include:

- the function of interest conciliation and harmonisation: the exploration of the general regional interest (related to the region's development), its representation, conciliation and implementation beside the industrial and macro-economic (social) interests and interests of the settlements;
- economic organisation and incentive function: the promotion of the economic development of the region and its continuous justification to the market conditions, the utilisation of the internal resources by purposefully using the external supports, and considering the regional-settlement endowments and conditions; those are the three fundamental elements of the function;
- deepening the regional division of labour, promoting the appearance of regional market conditions;
- increase the sources of income of the community and individuals in the region;
- provide employment for the population;
- the regional inequality mitigating function: to diminish the inherited and unjustified differences among the areas, to counterbalance the differentiating effect of economic and market conditions, particularly by promoting the creation of the capability of development in backward and peripheral zones and the restructuring of the depressed areas;
- the function of institution sustaining, operations and services: developing and operating the regional institutions that co-ordinate and supplement a regional

- system from the supply-service network of the settlements, the initiation of the co-operation between settlements, its support and promotion;
- the management of relations between regions (counties) and the international relations, "regional diplomacy" and "regional marketing": the promotion of autonomous regional development, the establishment of strong relations with other counties, European (or world) regions, institutions by joining to the main Hungarian and international development trend, the support and influence of the economic, social-cultural co-operation at the regional level, by showing the region's potential, opportunities, endowments, the maintenance of the region's "image" (Pálné-Horváth, 1993).

Competitive regional development strategies

The renewal of regional policy, determination of its organisational structure and means, a manifestation of this part of policy as an independent socio-economic force and its classification to the modernisation trends can be accomplished according to different strategies in the future. One solution is a regional policy based upon a dominant state role and deconcentrated institutional system. Another solution stems from regional initiatives and the regional policy is based on decentralisation of the means of obligations undertaken by the state. This latest is the prevailing trend in European development even in those countries where the leading political forces emphasise the state's role in regulating the market. Due to European integration that is moving towards regionality, the geopolitical position of Hungary, and the appreciation of the regional decision making position in joining the international division of labour, the co-operative, restructuring-oriented, *innovative regional policy* can be an efficient strategy for Hungarian modernisation; considering, that in a longer transitional period its conditions can be established only in a differentiated way in the regions of Hungary.

The objective of our research on formulating a competitive development strategy for the *Southern Transdanubian region* is to develop such a decentralised model (Faragó, 1993).

The central government in Hungary is not yet capable of intervening in the process of the regional crises consequent upon the transition to a market economy. The business sphere instinctively drifted towards unfavourable solutions of the adaptation strategies for the South-Transdanubian region: decreasing production capacity and relocating productive units. The transformation of the administrative system, particularly, the disparagement of the counties' role, and the underdevelopment of the regional institutional system of the market, did not allow the regions to initiate other types of adaptation strategies, such as developing a model based on the combination of new products and markets. Now the important obstacle to the economic restructuring of the region (and of the country) is the lack of a complex development strategy for spatial units and larger areas (and cities).

The formulation of a new course of development calls for the re-evaluation of the economic resources and endowments of South-Transdanubia. The new economy could rely primarily on the development of regional infrastructure, human resources, mobilisation of capital goods, and an organisational-institutional system capable of attracting foreign working capital. The appreciation of mental ability, technical

development, and management activity could be determinants in the transformation of the economic structure. Thus, it seems advisable for the development strategy of the region to be based on new types of combinations of the endogenous resources. The exogenous (Hungarian and foreign) economic development resources should be utilised only as a catalyst for local resources and to increase market reaction capability based on the preferences of endogenous demands. This is the only way to prevent the repetition of the consequences of the former regional policy, and that the solution of the acute employment problems would lead to the formation of a fragile economy in which the components do not link up with each other, but based on a strong regional external dependence. Thus in the future there is a need for an innovative regional strategy to develop economic modernisation rather than one-sidedly to acquire factors from outside the region.

The new economic structure in many respects could present good endowments for joining in the international regional integration, and it is conceivable that perspective innovative development poles similar to Western European development courses could evolve in many places. For development that is bottom-up and releases on small and medium-sized firms, the following favourable endowments are available:

- The traditions of enterprise are very strong in agriculture, small town industry, and tourist services in the region. It is particularly true for the agricultural zones surrounding the cities where the production for the market, the reaction to the changes in the market and the establishment of the necessary independent organisations related to them infiltrated the traditions of the farming economy, or for the regions involved in tourism where there are precedents of the services organised on the basis of private ownership.
- The institutions of higher education in the region could provide a framework for the regional human development programmes, and could serve as a basis for the development of quality tourism (conferences, therapeutic tourism) and for the diffusion of technological-technical innovations and professional culture.
- The educational level of one fifth of the population (living in small towns) is good, and the conditions are in favour of their trainability.
- There are relatively favourable conditions in the residential districts of the medium-sized towns and large cities in the region (the aesthetic appearance of downtowns, the existence of norms of residential districts similar to the Western European ones, the cultural-educational-academic milieu); these quality signs can be attractive to the foreign capital investors.

The key question of the structural transformation of the South-Transdanubia is to link up with the Central European growth centre (*Horváth, 1993b*). The following development objectives should be accomplished:

- The development of transportation and communication (modernisation of the main traffic roads, highways, airports), the evolution of a modern information system starting from the European development experience that it is impossible to be integrated with the international division of labour by the linking-up of a single centre (the capital), only the network of regional sub-centres can link Hungary with the European markets.

- The development of the institutional system of regional markets (business, bank-financial services, exhibitions, fairs, regional market information system, enterprising and export incentive centres).
- Industrial parks promoting technological change and changes in product mix, organisation of technological centres.
- The building up of a close network for vocational training and retraining in towns, the expansion of higher education both in quantity and curriculum, giving particular attention to technical research and training.
- The establishment of associations (agencies) for the regional economic development in order to harmonise the development concepts and to organise the composition of concept.

Those European regions which were able to formulate a development strategy suitable to their own needs and to have it accepted, and to enforce it, stabilised in a relatively short period of time, and their new structures began to grow.

The regions, however, that were unable to formulate an independent programme (many times because of their endogenous endowments) could expect their regeneration only through central support. However the restructuring of the system, led by the centre, following the solutions of the traditional regional development model, brought about only a temporary stabilisation. The economic structure of these regions was preserved. Their growth potentials and competitiveness stayed poor, and their integration to the international regional division of labour still meets with difficulties.

The regional development of market economies are not based on a uniform model, but strategies diversified and different in their elements are developed for the regions in different geographical positions and with different structural endowments. It is inconceivable that the regional development in Hungary would evolve according to a general pattern. The regional strategy of the government should include the general goals of regional policy, the financial incentives, and the forms of support. However to formulate the direction of the regional development and to choose the adequate model of the path of development, and to find financing, are the tasks in actors of the local economic activity and of the local government.

It is clear that the regionally initiated development policy based on the associations of the regional actors can not be the only solution in Hungary. Favourable changes can be brought about only in those regions (e.g. in South-Transdanubia) where the need to transform the traditional, formerly relatively strong economic structure, and the demand to activate the backwards areas connected to the core territories, formulated in conformity with the public opinion, are together with the new types of driving forces of the international regional development, and their human resources, intellectual capacity, and also the forming market and interest asserting organisational net, give an adequate framework to formulate the direction of development.

Regional preconditions of the European integration

The expansion of European economic and political co-operation the trend of the national and regional economies towards globalism, strengthen the regional role of the division of labour, and multiply the number of actors involved in co-operation. In the market economies the decentralisation of the decision making competence includes the regulation of international economic, political and social relations, too. The rights of

local governments have gradually increased in order to promote European integration, though to a different extent as a result of the difference in the philosophies of building up the state at each country; legally regulated division of labour evolved between central–regional–local governments in forming the international relations.

Due to the intensively foreign trade oriented Hungarian economy, the geopolitical position of the country and its connecting role between East and West, it is advisable to develop a new division of functions between the actors of public administration (and economy) in organising international relations. Beside enforcing the sustaining of national sovereignty and the objectives of the state's foreign policy, the rights of the local governments in establishing international relations should be formulated.

Considering that the decisive part of Hungary's economic relations links to countries in which, according to the agreement of the Council of Europe, signed in Madrid, the national documents of ratification consider the medium level as the subject of decentralisation of "foreign policy". The German and Austrian Lands, the Italian, French regions, and the Swiss cantons, have independent strategies for organising East-Central-European co-operation. In order to create a compatible system, it would be advisable to include the organisation of international interregional co-operation in the functions of the county (that could give new impulses to regional development) working in a close co-operation with the affected local governments.

Various forms of organising international relations can be scheduled. For some of them the agreement of the Council of Europe offers organisational models. On the other hand, in the Hungarian regulating process, decisions have to be made on possible alternatives; e.g. that should a difference be made between counties at the border and those in the inner part of the country in regulating their authority regarding relations; what would be the form of enforcing the state (government, parliament) control; how can the county's interest be channelled into the national foreign policy strategy; and what kind of forms of association can be applied to developing European regional relationship for the Hungarian counties in a competitive situation between the regions.

An important market policy tool is regional and settlement marketing in developing international relations and generally, in the mobilisation of the resources of the domestic economy that should be fit into the activities of the country. The Hungarian counties (and settlements) could gain ground in the competition of the European regions (there are different characteristics in Eastern and Western Europe) only if they implement their co-ordination function when determining regional needs, sell and utilise the products, services and the natural endowments of the county. In this field the task on the medium level could be to inform the potential consumer of the county's resources about the supply, and to bring their attention to the resource utilisation and the ways in which they can be used. A county or a region "as a product", is manifested as the image of the region. For that reason the medium level should develop a complex marketing program and disseminate an attractive image of its region, territories, and functions. There is no need for particular legal regulations related to marketing, though it asks for professionalism and a strategy including the activities and means of marketing communications.

Regional policy education

Till the end of the 1980s, experts in the field of regional and settlement development could gain knowledge only through practice, since their organised education was not

provided yet in Hungary. Parts of the profession were taught at the different higher educational institutions, but only the special issues related to particular subjects.

In launching a complex regional policy, education was not even required by the existing model of social policy. It was easy for the professional staff of regional and local administrations to learn and gain practical knowledge on the central standards of redistribution, and the locally initiated artifices manifested in the mechanism of negotiations. By the efforts to change the financing of the councils, the failures of regional development policy, and the regular participation of researchers in solving practical matters of regional development, the experts realised that regional processes are formed by objective conditions and a number of factors, and the actors of regional development should not only act as the executors of the central will.

In Western Europe it was the result of the decentralisation of economic and political power that regional development and policy gained ground in higher education, too. The diffusion of power, the division of sovereignty within the state according to the newly formed structures became the peremptory needs of the post-industrial development of the society. In the 1960s and 1970s, the increase of the number of the decision making centres with various regional connections, the new institutions taking active part in regional development (business development associations, innovation centres, financial organisations, regional movements), and the increase in the autonomy of regional governments, caused the introduction of teaching regional development at most Western European universities or helped the organisational integration of regional planning, regional economics, settlement sociology and other subjects already taught.

As a result of these experiences our institute launched the Postgraduate School of Regional Policy of the Janus Pannonius University in 1989. Since then 35 professionals have earned diplomas. Following the evaluation of our results and the educational programme that is in accordance with the western European educational objectives, our institute became a member of the Association of European Schools of Planning. From 1994 with the financial support of the PHARE programme and professors from foreign universities, we wish to strengthen the courses on European regional policy, in the hope that our programme can be used as a model for other Central and Eastern European countries as well.

* * *

I have presented a brief outline of our ideas and problems. The development of the Transdanubian Research Institute was not without troubles. Naturally the results and the failures are not independent from the particularities of the Hungarian (Central Eastern European) development, the consequences of the remote and near past, and the difficulties of the transition. The objectives of the Transdanubian Research Institute, however, is unchanged: it wishes to connect its investigations to the main trend of European regional research even more strongly in the future, and to synthesise its answers to the regional questions of Hungarian modernisation after examining European challenges. It wishes to cooperate with its Hungarian and foreign scientific

partners, to participate in higher education and to serve the practice of regional development in accordance with the spirit of this philosophy.

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PART ONE

**EUROPEAN INTEGRATION AND INTER-
REGIONAL CO-OPERATION**

2 TRENDS AND PROBLEMS IN EUROPEAN INTER-REGIONAL CO-OPERATION

RICCARDO CAPPELLIN

Introduction

Until recently, inter-regional co-operation in Europe was not identified as a major issue by public opinion and national policy-makers. However, the process of fragmentation of many national entities, as has occurred in Eastern Europe, and the gradual removal of national barriers in Western Europe, highlight the increasing importance or even the necessity of inter-regional co-operation as a factor promoting the process of European integration.

In fact, on the one hand, the reconquered political freedom and the process of internationalisation leads to a resurgence of ethnic and cultural values so long repressed. On the other hand the internationalisation of national economies only apparently implies a shift of power to supra national institutions. It leads instead to a greater specialisation of each regional economy on the basis of comparative advantage, and to the need to mobilise endogenous resources and to rediscover regional identities, as regions are spaces where an higher internal solidarity may help in facing the challenges of international competition.

In particular, inter-regional co-operation favours a greater autonomy from national institutions and it responds to the aim of coping with the interregional spill over effects created by the increasing interdependence between regional economies, while avoiding a concentration of power in supra-regional or national organisations.

This paper represents a synthesis of a larger study on inter-regional co-operation in Europe (*Cappellin-Batey*, 1993). The paper first analyses the development trends occurring in a large European perspective and the increasing need for a transnational interregional perspective, which may go beyond the actual borders of the European Community. Then it analyses the trends toward a decentralisation both of productive organisations and also of the institutional relations between EEC, the national states and the regions. The paper indicates that the experiences of inter-regional co-operation are a logical extension of the principle of subsidiarity and that a trade-off exists between benefits and costs of development of regional cooperation and those of national co-ordination. Finally, the paper indicates some of the obstacles to be faced in the development of inter-regional co-operation especially in the case of economic lagging regions.

Geographical changes: new regions in a borderless Europe

The removal of national barriers within the European Community and the development of the economic and political relationships with the European countries external to the

EC implies a new geo-economic order in Europe and a change in the hierarchical relationships among the various regional and urban production systems.

The structure of the European urban system seems different from that of the traditional hierarchical Christallerian model, according to which there would be a very limited number of large cities capable of having an European role, and a large number of cities which may only have a regional role (*Commission of the EU, 1990*). On the other hand, the well known model of the "Blue Banana" running from London to Milan, defined by the French Datar, seems also rather artificial (*Illeris, 1991*). The European urban systems may instead be interpreted as the combination of various urban sub-systems or networks, which often have a trans-national dimension (*Cappellin, 1988, 1989*).

Thus, it seems useful to consider simultaneously various possible approaches in the regionalisation of the European territory, as each of them may indicate different development potentials, different strategic frameworks and different policy instruments, such as:

- a) actual administrative regions, which define the spatial framework of regional powers of self government;
- b) historical regions, which are based on the principle of homogeneity, and to a large extent correspond to the eighteenth century city-region states. They may define the spatial frameworks which have common cultural values and have common regional identity and thus may also have a specific common "image" to be promoted at the European level;
- c) new meso-regions, which are based on network relationships among various urban centres and indicate new development trends and new strategic frameworks for the promotion of regional development.

In fact, the increasing co-operation among firms within the European economic system and the need to create modern infrastructural networks among the various European urban centres and regions is linked with the identification of new groups of regions and countries at a trans national scale which represent new trans national meso-regions within the European economy.

On the other hand, global competition does not only concern the individual firms but also the various national and regional production systems.

These meso-region are characterised by a relative spatial contiguity and may comprise regions which are 500–800 km distant from one another. They are also a given extent based on a common identity, to reciprocal trust and thus to a common sense of belonging: factors which represent a precondition for defining a common development strategy.

A peculiar characteristic of an inter-regional approach is the fact that it is leading not to new rigid boundaries, but to a patchwork pattern of overlapping jurisdictions or to a variable geometry strategy of multiple trans national co-operation networks.

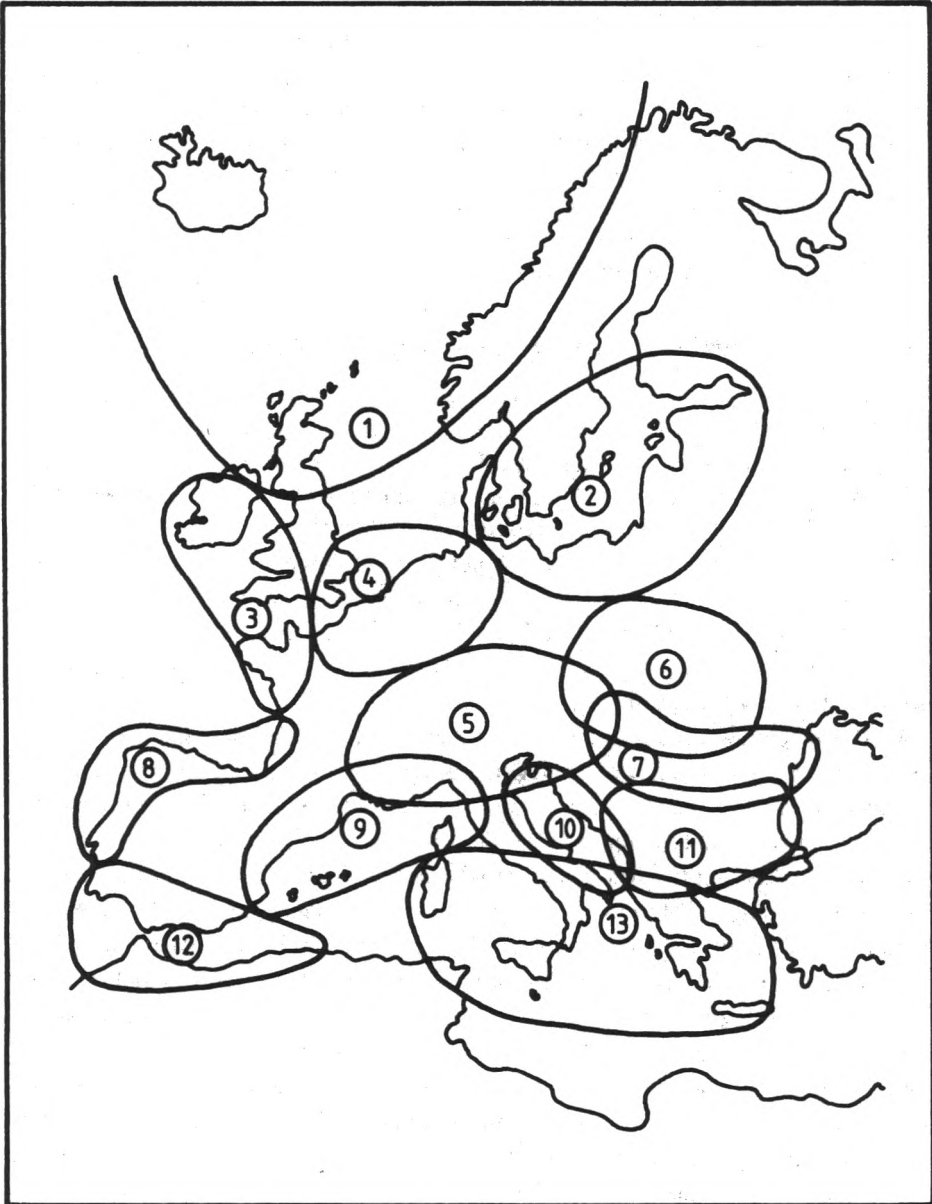
Thus, the European economy may be interpreted as an urban system made of a combination of various urban networks or large European meso-regions which have a trans national dimension (*Cappellin, 1988, 1989*), as those indicated by *Figure 2.1*.

Within these urban networks, co-operative relationships based on the specialisation and complementarity of each individual urban centre or region prevail, while competitive behaviours prevail in the relationships at the European scale between these individual urban networks or meso-regions.

In particular, each national area can be subdivided into two or more areas which can belong to different European meso-regions. Moreover, each meso-region can be defined in a way so that it includes regions belonging to three or more nations.

Figure 2.1

Europe of the regions



Key: 1=North Atlantic basin; 2=Baltic basin; 3=North Atlantic arc; 4=North West Europe metropolis; 5=Alpine arc; 6=Carpathian; 7=Danubian basin; 8=South Atlantic arc; 9=Latin arc; 10=Middle South Adriatic basin; 11=Balkan arc; 12=West Mediterranean basin; 13=Central Mediterranean basin.

Therefore, the fact that a region belongs to a specific national community does not exclude, and may on the contrary be complementary to the fact that this region also belongs to a large inter-regional trans-national community. In fact, the creation of European meso-regions is a factor conducive to greater integration of the various national economic systems at the European level.

These meso-regions suggest new strategic frameworks in the promotion of regional development. They are abstract ideas, symbols, visions or strategic instruments which aim to mobilise resources in order to solve common problems. They do not correspond to existing territories but may indicate future territories and certainly correspond to actual tendencies which may be perceived by an expert analyst.

These large meso-regions identify new development axes which insure a greater European cohesion in territorial terms and are of special importance in the perspective of a policy of "management" of the European territory.

Functional changes: the principle of subsidiarity

The economic foundation of federalism is represented by the principle of subsidiarity according to which each function should be attributed to the lowest efficient decision level within the hierarchical system of relationships between regions, national states and European Community. Therefore, functions should not be transferred to a superior level when they can be efficiently exercised at a lower level.

The subsidiarity principle on one hand implies a limitation of the powers of national governments and of the European Community and on the other hand can lead to their greater efficiency, which being freed from disparate competencies, may gain in terms of greater flexibility and may concentrate their efforts in policy fields which have a specific national or European dimension.

As the extent of regional autonomy according to the subsidiarity principle is determined by the criteria of efficiency, the actual solution may be rather ambiguous and depends on the specific country and region considered, and especially on the different approaches to be adopted in the specific policy fields considered.

In fact, modern approaches in the various policy fields are rather different from those adopted only ten–twenty years ago, so that a change in the objectives and instruments of the policies to be implemented also implies a different organisational-institutional framework for the design and management of those policies and therefore a different optimal solution of the relationships between regions and national states. Thus a traditional industrial policy based on financial incentives may be managed more efficiently at the national level, while a modern industrial policy, based on innovation, promotion, and on inter sectoral technological interdependencies, could be more efficiently organised at the local level.

In particular, policy fields on which the regional level seems to be the optimal decision-making level in a modern economy, such as that of most European countries are:

- a) territorial planning, infrastructure and environment,
- b) vocational, education and applied research,
- c) industrial and innovation policy for SMEs.

In fact, the ineffectiveness and inefficiency of national administrations in these policy fields is demonstrated by the long term record in most countries.

In particular it is worth underlining the tight relationship between federalism and the modern organisational forms of the economic system and of individual firms. Federalism or regionalism correspond to a paradigmatic transformation of the structures of society, of economy, of production technologies in Europe (Cappellin, 1990, 1991a). Federalism insures a greater decentralisation in the decision making process and therefore represents the institutional form which is more suitable for a socio-economic system which is more articulated, culturally more advanced, and technologically more complex. Therefore while federalism is typical of an "open system" logic, centralism is typical of a "closed system" logic.

The internationalisation of economies or the integration of local and national production systems, on the one hand, and regionalism and federalism in the government structures of the economy, on the other hand, are complementary phenomena. In fact, it is typical of regional economies to imply a tight integration, not only of product markets, but also in terms of production factor flows. Thus the internationalisation process transforms national states into large regions which are highly heterogeneous within themselves. This leads to the need for a regionalisation of individual national systems.

The principle of subsidiarity to a large extent seems to correspond to the recent changes in the organisational structure of private firms, which are indicating a shift from vertically integrated forms of hierarchical organisations to an increasing specialisation of each firm in its core business, and to flexible forms of integration with other firms producing complementary products and services. Industrial restructuring in the recent years has implied a process of deverticalisation and of "down-sizing" of large firms, an increasing division of labour within and among firms, an increasing division of labour within and among firms, the development of new forms of internal organisation tightly finalised to produce continuous innovations, the development of the capability to recombine knowledge and experiences in different ways, the development of inter regional and international networks of firms, which are flexible, decentralised and articulated into various specialised and complementary sub-systems.

When the institutional relations between the EEC, the national states and the regions are considered, the principle of subsidiarity is coherent with a new perspective aimed at European integration, which is that of the *Europe of the Regions* or the *European Federalism* and is different from the model of the "European Internal Market" and of that of a "European Union".

In fact the model of the "Europe of the Regions" seems to be characterised by:

- the internationalisation and innovation process in the individual regional and national productive systems,
- the model of flexible production,
- the development of network organisational forms not only at the local level but also the internationalisation and innovation process in the individual regional and at the inter-regional level,

- the increasing role of small and medium-sized firms in international markets, the increasing integration or internationalisation of regional and national productive systems,
- the claim of autonomy and self-government by regional institutions and the increasing consensus on the principle of subsidiarity,
- the increasing perception of the value of regional and national diversities, the discovery and development of transnational historical, social and cultural identities,
- a flexible geometry of inter-regional and international co-operation relationships,
- the development of non hierarchical relationships based on partnership between national institutions and regional institutions in joint programmes,
- the development of specific European programmes, additional and not alternative with respect to the regional and national programmes.

The typically federalist conception of the "Europe of the Regions" differs from that of the "European Single Market" due to the fact that inter-regional flows are not conceived in a functional way or as controlled by a global system of multinational or transnational firms, but as the effects of the interdependence and integration among the different regional productive systems.

On the other hand the "Europe of the Regions" is a concept which is different from that of a supranational "European Community", as the regionalism and the claim for regional self-government are based on the belief that economic development in the individual areas mostly depend on the capability of local initiative, and are meant to exploit the synergies among the local resources.

The process of interregional co-operation has profound implications for the very character of the European integration. Inter-regional co-operation implies a bottom-up, or grassroots approach to European integration. This seems to justify a thorough analysis of the respective characteristics of concepts, such as those of regional administrative autonomy, regionalism, federalism or nationalism, which are often used in a rather contradictory manner.

In abstract terms the distinction between the three different concepts of the European Single Market, of the European Community and of the Europe of the Regions, is similar to that among the three different organisational forms of the modern theory of the firm, but also to the three principles at the base of the liberal-democratic thinking. Therefore, it is possible to identify three different organisational-institutional models or paradigms which are each characterised by an internal logic, implying a tight interaction between concepts related to the organisation of relationships among firms and to the forms of political and institutional relationships as indicated in *Table 2.1*.

Finally it seems important to underline the tight complementary relationship between the concepts of regionalism or federalism and those of co-operation and solidarity, which being based on individual consensus, seem rather distinct from those of an equity imposed by a superior authority and of legal rights to public transfers.

Moreover, different from a superficial but diffused opinion, separatism is more similar to centralism or nationalism than to regionalism. In fact, centralism implies opposition to development of those flexible forms of integration which are a typical characteristic of regionalism, and the oppression of ethnic minorities. This may lead to separatism, which is

in fact a form of micro-nationalism. Thus the centralist power of the national state are not only the main factor of the lack of unity at the European level, but are often also the factor which leads to the division of the individual national communities.

Table 2.1

Organisational forms and models of institutional integration

	FREE MARKET MODEL	CENTRALIST MODEL	FEDERALIST MODEL
ORGANISATION FORMS	market, atomistic competition	hierarchy, mass production	co-operation, flexible production
ORGANISATION PRINCIPLES	initiative, responsibility, X efficiency	authority, legal rights, ec. of scale	self-government, synergy flexibility
INTEGRATION LOGICS	competitiveness, monetary exchange, interdependence	homogeneity, control/ dependence, co-ordination	differentiation, influence/ leadership, negotiation
GEOGRAPHICAL FRAMEWORK	homogenous space	administrative units	territorial production systems
NEGATIVE EFFECTS	hegoism, economicism, liberism	bureaucracy, assistance, dirigism	conflicts, assemblerism, veto power
POLITICAL IDEALS	liberty	equality	fraternity
INTERNATIONAL RELATIONS	free trade	mercantilims	complementa- rity
EUROPEAN INTEGRATION	single market	supranational community	inter-regional federation
NEGATIVE DEVELOPMENTS	economical and political disequilibria	nationalism/ separatism	confusion/ impotence

Thus the demand for greater regional autonomy by many regions in various centralised states in Europe should not be interpreted as a new form of micro-nationalism, which is inevitably in conflict with the nationalism of those which support a centralist state. Regionalism, when based on the principle of subsidiarity, seems instead lead to federal forms of inter-regional and international integration.

The subsidiarity principle is a basic or architectural principle of institutional relations advocating a greater decentralisation. It should not be interpreted as leading to any rigid division of power between the various institutions, but rather to ever changing forms of partnership or co-operation, both between the regions and the national/EEC institutions and between various regions. According to the subsidiarity principle, each institutional form should be judged and when needed it should be flexibly adapted according to a criteria of functional efficiency, as may be indicated by a flexible division of labour within a network comprising both national/EEC and regional institutions.

The principle of co-operation

A further limit of the subsidiarity principle, beside its relative ambiguity, is its hierarchical character, as it explicitly takes into account only vertical relations between the regional and the national and the EC levels. Therefore, it would imply a shift to superior levels of all competencies related to problems which have a super-regional dimension. This is a serious limitation as most problems have clearly inter-regional spill-over effects across regional boundaries.

On the contrary, inter-regional co-operation both in a bilateral and in a multi-regional framework seems an institutional and organisational solution which is more efficient than the continuous creation of new "authorities" to tackle those cases of policy intervention which, although having a superregional dimension, do not have a clearly national relevance.

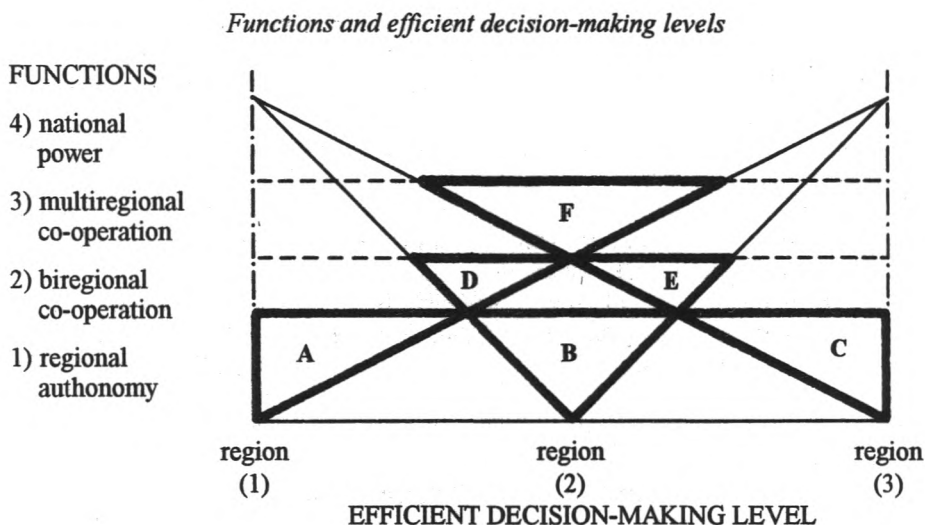
It may be case in which only a limited number of the regions of a given country have a common interest in the problem considered. A further typical case is that of relationships between border regions, as the co-ordination of respective national administrations, which know much less the concrete problems at hand, would often imply greater problems than the direct negotiation between the regional governments of the considered regions.

This problem may be illustrated as in *Figure 2.2*, where the various functions are organised according to a hierarchical principle starting from those which imply a smaller geographical planning unit than those which for their efficient management imply a larger territorial framework. The horizontal axis indicates various location points, which correspond to different regional administrations.

Thus, for some functions the relevant areas do not intersect and total autonomy can be allowed each regional administration. On the other hand, in the case of super regional problems, i.e. when the required minimal planning minimal units overlap, as it is indicated by the areas D, E, C, F, bilateral or multilateral co-operation schemes may be a more efficient solution, rather than the delegation of all power to a super-regional or national "authority".

According to this approach power should be delegated to a super-regional or national "authority", which may have his own legitimacy and act autonomously from the various regional governments considered, only when the area of overlap among the regions considered represents the largest portion, or is just greater than half of their territory.

Figure 2.2



Thus, the principle of interregional co-operation is coherent with a bottom-up decision making process and it appears as the logical extension of the principle of subsidiarity. In fact, the impulse for co-operation comes from the individual local government units and from individual firms and local lobbying groups. Inter-regional co-operation is both the effect and an instrument for promoting an active role of local actors.

Benefits and costs of inter-regional trans-national co-operation

The design of a new inter-regional framework in an European perspective leads to new types of relationships between national states and regional governments. This is especially important for land border regions, which are tightly contiguous, but it also true for sea border regions and more generally for those regions which may be considered member of a large trans-national European meso-region.

It must be underlined that there are advantages and costs in the process of trans-national co-operation between border regions. First of all, the relationships among border regions have been and are still often relationships of conflict for various reasons, such as the existence of ethnic minorities, fear of immigration, fear of unfair competition, negative environmental spill-over effects, etc.

In some cases, the survival of national barriers may represent an advantage not only for the capital regions where the national administrations is concentrated but also for some border regions which benefit from a sort of rent position, as they are in the location of customs administration, various international transport and financial activities and of military installations, and may receive considerable subsidies from national governments.

However, conflicting relationships may be transformed into relationships of co-operation, whenever bilateral relationships are interpreted in a larger European perspective (Cappellin, 1991b; Cappellin-Batey, 1993; Nijkamp, 1993).

Border regions are most penalised by the existence of various obstacles which may be defined as territorial costs of the "Non-Europe", according to the terminology used in the

construction of the European Single Market. Thus, they deserve greater attention by EC institutions and national governments aiming to promote greater cohesion of the European economy. This explains why EC Commission has recently supported, although with still inadequate financial allocations, the development of co-operation schemes among regions through the INTERREG programme and the Regions and Cities for Europe (RECITE) initiative.

Frontiers, included sea-frontiers, among countries and regions, should not be barriers and lines of potential conflicts, but can become the interface or the gateway between the various European countries and also between these and the non-European countries of the Mediterranean basin. In particular, border regions may become important hubs in European transportations and communication networks.

Moreover, border regions, for their strategic positions, may become European trans-national meso-regions, which may favour the process of European integration and may help the various individual regions in having a common role to play in the European economic space.

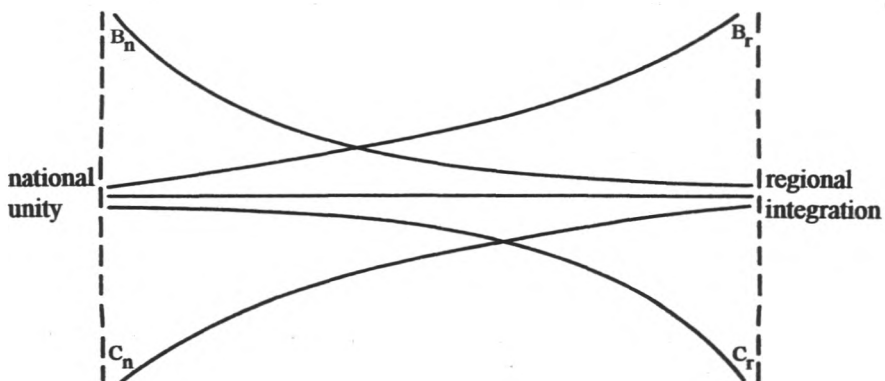
Therefore, co-operation between border regions may be consistent with the achievement of three different objectives:

- a) remove the barriers between the two regions considered and solve bilateral problems and conflicts,
- b) represent an interface area or a gateway in the relationships between the two respective regions,
- c) represent an overall trans-national region which may play a role in international competition with other European meso-regions.

Thus, the organisation of a border region's external relations with respect to the national community and to the other neighbouring foreign regions may be specified according to two opposite solutions as in the case of the organisation of external relations of a firms. The first solution, which is similar to the hierarchy solution, or to the vertical integration of a firm, is the national unity solution or the tight integration and dependence on a national institution. While the opposite solution, which may be similar to the "market" or to the monetary exchange for a firm, is the "regional integration" solution or the creation of a trans national region together with the neighbouring foreign regions.

Figure 2.3

The trade-off between national unity and regional integration



The actual solution may be represented by a compromise between these two extreme solutions. This may be defined as the search for the optimal level of regional autonomy ($0 < A < 1$), when both the benefits (B_r) and the costs (C_r) of regional integration, and the benefits (B_n) and costs (C_n) of national unity vary with the level of regional autonomy (A) as indicated in *Figure 2.3*, where benefits and costs may have the following characteristics:

- B_r : – develop joint historical-cultural values and the regional differences,
 – exploit complementary relationships among regions,
 – exploit network economies in the circulation of information and know-how,
 – exploit jointly the common natural resources, taking into account external economies and diseconomies,
 – exploit economies of scale and overcome indivisibility in the production of specific important public services and infrastructures,
 – increase the flexibility of the regional economy, react more timely to market changes, stimulate innovation and reduce the risk,
 – exploit the economies of scope in the planning of tightly complementary services which require a large territorial basin and exploit economies of scale in the joint planning of these services,
 – decrease the transaction costs which hinder co-operation among firms in the various regions,
 – decrease the competition among the regions considered and those conflicts which are due to the existence of national borders,
 – promote joint coordinated-actions, share the respective international contacts in order to sustain the challenges created by some external “enemy”, such as the competition of other European meso-region or the centralism by respective national authorities and advocate greater regional autonomy.
- C_r : – transaction costs in inter regional negotiations,
 – displacement of firms or productions in neighbouring regions,
 – greater immigration from neighbouring regions.
- B_n : – protection from foreign dangers by national institutions,
 – local of custom functions in border areas,
 – financial transfers from national institutions.
- C_n : – effects of international conflicts on border areas,
 – transaction costs in co-ordination with national institutions,
 – discriminatory national policies vis a vis peripheral regions.

Thus the optimal level of regional autonomy is derived from the solution of the following problem:

$$\text{Max}_A [B_r(A) - C_r(A)] \pm [B_n(A) - C_n(A)]$$

This indicates that the actual solution may be rather different in each border region and that regional policy makers should evaluate various tradeoffs in the process of developing an international strategy for a border region.

The organisation of inter-regional programmes

The development of a strategy of inter-regional co-operation is hindered by a series of obstacles which in some cases may represent a constraint which can hardly be overcome, or a precondition for the start of a strategy of inter-regional co-operation.

Among the obstacles which have most often been identified in previous experiences of inter-regional co-operation are the following:

- a) different technological or development level,
- b) different institutional competencies,
- c) inadequate financial resources,
- d) different languages,
- e) different working methods,
- f) weak knowledge and reciprocal trust, as co-operation is a gradual interactive learning process,
- g) the inadequate identification of respective interests,
- h) the inadequate identification of respective strengths, complementary resources and specific knowledge,
- i) the inadequate identification of respective weaknesses and bottlenecks,
- l) the lack of engagement and motivation,
- m) the length of the time required for preparing joint activities,
- n) the insufficient stability of respective objectives and of the persons responsible for the individual projects,
- o) the inadequate development of a networking process among regional actors,
- p) the inadequate specification of efficient institutional forms to manage the co-operation scheme.

Also the urban structure of a region may favour its degree of openness to the international economy and municipal authorities may have a very active role in promoting inter-regional co-operation initiatives.

The creation of an agreement is not a sudden occurrence, but it is similar to a gradual learning process. Thus next to the conditions which may lead to the creation of an agreement, even more important may be the factors leading to the continuity and success, or to the interruption of an agreement.

The existence of different competencies does not represent a crucial obstacle for the creation of successful co-operation schemes. What clearly matters is the behavioural logic of the various regional administrations, as inter-regional co-operation requires a pragmatic logic of public entrepreneurship, or a project design capability, rather than competencies.

Inter-regional co-operation has profound implications both in policy design and in policy implementation for local authorities and it is an instrument capable of leading to the identification of innovative projects and to a mobilisation of an enterprising spirit and of resources both external to the regions and internal to the region.

In particular, there is a tight relationship between the capabilities of networking at the inter-regional scale and those of networking at the regional level. In fact, the development of inter-regional co-operative relationships clearly implies the capability by the individual regional governments to establish co-operative relationships with the other regional institutions and organisations, such as professional associations, individual private firms, cultural and research institutions, etc. in order to design joint

projects which may promote the international role of the overall regional production system.

Therefore, the existence of an integrated local production and innovation system represents both a strong point, and a prerequisite for participating in more complex initiatives of networking at the inter-regional level.

The most efficient and long lasting inter-regional co-operation schemes are those which have an intersectoral character, being focused rather on a narrowly defined objective, and are capable of mobilising the largest part of human, productive and organisational resources which exist in a region (*Cappellin, 1991b*).

Thus, the existence of different competencies does not represent a crucial obstacle to the creation of successful co-operation schemes. What clearly matters is the behavioural logic of the various regional administrations, as inter-regional co-operation implies a pragmatic logic of public entrepreneurship or a project design capability, rather than the formal respect of bureaucratic competencies.

Inter-regional co-operation may represent a stimulus to recognise the importance of regional policies in countries where the economic policy seems only to play attention to sectoral or macroeconomics issues. In other countries inter-regional co-operation may stimulate a change in outdated approaches in regional policies, such as those still followed in many European economic lagging regions.

Inter-regional networking and co-operation has an implicit hierarchical character and it implies the existence of regions performing the role of leaders especially in preparatory phases and the creation of specific structures or contractual provisions which will insure co-ordination in implementation.

In the case of economic lagging regions of the EU, inter-regional co-operation initiatives are hindered by the lack of a project oriented mentality, which is the effect of the prevailing centralist and "dependent development" model.

In these regions, often it is still not perceived that inter-regional co-operation may be a business also for private organisations. Local actors only aim at financial incentives granted by public authorities within the framework of these initiatives and refuse to take a more active role in the organisation of co-operation projects. Thus it is necessary that co-operation initiatives will be promoted first of all by the various regional administrations with the technical assistance and the financial help of national and EU institutions.

The development of a strategy of interregional co-operation would allow these regions to overcome a centre-periphery logic, which is prevailing in economic lagging regions, and would stimulate them to adopt a policentric logic, according to which regions which are peripheral with respect to a supposed centre of the European economy may become central in a different geographical perspective, which may be enlarged to include also countries which do not belong to the European Community, such as those of Eastern Europe or of the Mediterranean basin.

The centre-periphery logic is negative as it leads to the focus effort in the direction of the development of further centripetal relations between each peripheral region and a supposed centre, instead of developing horizontal relations of inter-regional cooperations.

In fact it is typical that EU economic lagging regions and also Eastern European countries compete against each other in order to attract resources and to achieve the

best position in the process of economic integration with the "central" countries and regions in the European economy.

However, in some cases the logic of centre-periphery may also represent the stimulus for some regions to create an alliance or an European meso-region, in order to avoid being marginalised within the new European economy, as has occurred in the case of regions and countries which are promoting co-operation schemes within the Atlantic arc or the Baltic area.

Thus, the logic of inter-regional co-operation has a selective or hierarchical character, as the regions which are most capable to participate to a networking process at the European level are the most developed one. This may lead to an increase in regional disparities, unless national and EU institutions help economic lagging regions to escape from their relative closure and to increase their awareness of the need by each region to develop its international relations.

Conclusions

The gradual development of schemes inter-regional co-operation is a powerful instrument for promoting European integration, both in the case of central and developed regions and in that of peripheral and economic lagging regions and also between EEC regions and between these latter and regions external to the European Community.

While national authorities have a vested interest in the preservation of international differences, the creation of new large transnational regions based on inter-regional co-operation may promote the overcoming of national barriers.

National and EEC institutions should have a clear interest in promoting cross-border co-operation not only as an effective way to promote a more integrated European territory, but also for equity reasons, as inter-regional co-operation represents an effective strategy to promote regional development in peripheral regions.

A greater role assigned to inter-regional co-operation is a factor favouring the adoption of a new regional development strategy in economic lagging regions, based on the endogenous approach, the responsibility of local actors and the development of internationally competitive activities.

Inter-regional co-operation, especially with regions of former socialist countries, is instrumental in order to strengthen democratic institutions and to reinforce political stability in Europe. However, inter-regional co-operation may also be of fundamental importance in order to reinforce the powers of local governments, the thrust in its own capabilities, the sense of responsibility, the values of democratic accountability and the efficiency of local public administrations in many less developed regions of Western Europe.

In conclusion, I may express the hope that, although they may appear preliminary and fragmented, the experiences of inter-regional co-operation actually being developed in Europe may stand as a laboratory for a process of overcoming of national differences and conflicts based on a bottom-up or federalist approach.

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3 REGIONAL CONVERGENCE IN THE EUROPEAN COMMUNITY

PAOLO PETTENATI-GIUSEPPE CANULLO

Introduction

The relationship between economic growth and the reduction of per capita income disparities among nations or regions has always been a central issue in development economics.

Politicians and government officials of laggard countries, or areas, have been asking how quickly and through which policies they could help to close the gap with wealthier areas. Simple citizens have been wondering what their hopes were of ever reaching a better standard of living like that enjoyed by their more fortunate fellow human beings.

Important as it might be, economists have not been able to give a clear answer to these questions.

On the theoretical level models that predict convergence, like the neo-classical growth model, coexist with models that imply a progressive increase in disparities between rich and poor areas, like the so-called cumulative causation models (*Myrdal*, 1957; *Kaldor*, 1970; *Dixon-Thirlwall*, 1975) and, more recently, the "new growth theories" (*Romer*, 1986; *Lucas*, 1988), while a third strain of thought, the "filtering down theories" (*Thompson*, 1968; *Berry*, 1973; *Aydalot*, 1992) forecast that regions will grow at the same rate, keeping the relative income distances.

The empirical literature, in spite of the many studies published over the last years, not only has not succeeded in coming up with an unequivocal answer to the question, but it is divided as to the methodological approach (*Quah*, 1992) and even the adequateness of the variables normally used to measure the phenomenon, that is the constant prices GDP (*Fua*, 1993).

In the next pages I will review, very briefly, the evolution of income disparities in post-war Western Europe.

The aim is to point out some factors that contributed to their reduction and to extract from the past, some clues about the future, especially with reference to Eastern Europe.

The data shown here comes from research under way at Ancona University, whose results have been made public in three papers to which we refer the reader for a more complete discussion of the methodological aspects of the problem and a survey of the literature on convergence.

The organisation of the paper is as follows:

- in the next section I will review the evolution of disparities among the European countries and within the European Community;
- in section 3 I will talk about the regional disparities within European countries;
- in section 4 I will assess the relative position of Eastern Countries vis-a-vis Western Europe;
- in section 5 I will draw some conclusions and policy implications.

Disparities among the Western European countries

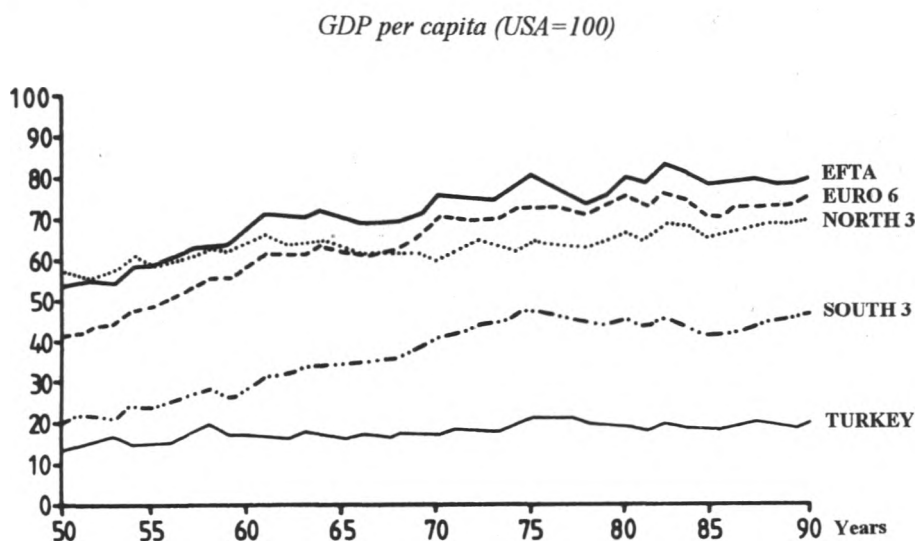
One of the few points of agreement in the empirical literature on convergence is that post-war Europe has been growing faster than the economic leader, the United States.

Figure 3.1 gives a summary of this process. The European Countries have been divided into groups: the first (Euro6) obviously corresponds to the Community's six founding countries: the second and third (North3 and South3) include the countries that have entered the Community at a later date (the UK, Denmark, Ireland and Greece, Spain and Portugal respectively); the fourth group is made up of the countries that are at present members of EFTA while the last group comprises two countries at the extreme South-East of Europe, Turkey and Cyprus.

The Figure seems to suggest the following considerations:

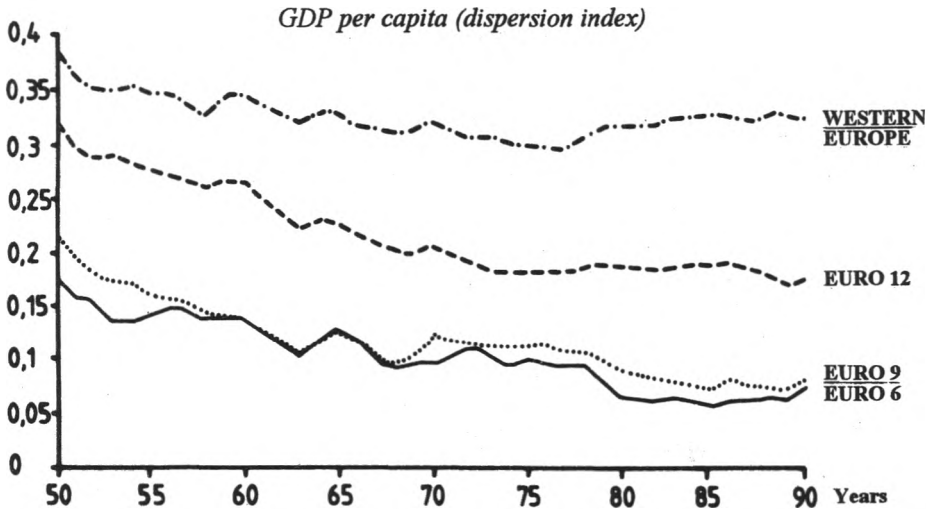
- The relative position of all the groups of countries has improved with the respect to the United States, some more notably (Euro6, EFTA and South3) and others to a lesser degree (North3 and Turkey).
- On the whole the catching-up process was rapid in the fifties, during the post-war recovery, continued at a slower rate in the sixties and slowed down even further in the last two decades. The most obvious exception to this pattern concerns once again North3 and Turkey, who in the sixties were hardly able to keep pace with the United States, but have shown, admittedly to a small degree, greater dynamism in the last two decades.
- Even though the performance of the various groups has been differentiated, only one group has succeeded in overtaking another (Euro6 as against North3)
- The gap between the countries of North-Central Europe on the one hand and those of Southern Europe on the other remains wide and doesn't look as if it is going to close very quickly.

Figure 3.1



The rapid growth in the fifties and sixties was accompanied by a marked reduction in the dispersion of per capita GDP both among the countries that made up the EEC at different times and among the Western European countries as a whole (*Figure 3.2*). Starting in the sixties the dispersion index tends to stabilise and in the case of the Western Europe sample, to rise.

Figure 3.2



Figures 3.3a-c give, in more detail, the relative performance of the twelve countries that now belong to the EEC. Leaving to the reader the leisure to examine the accomplishments of individual countries, I would like to draw the attention to the following points:

Figures 3.3a

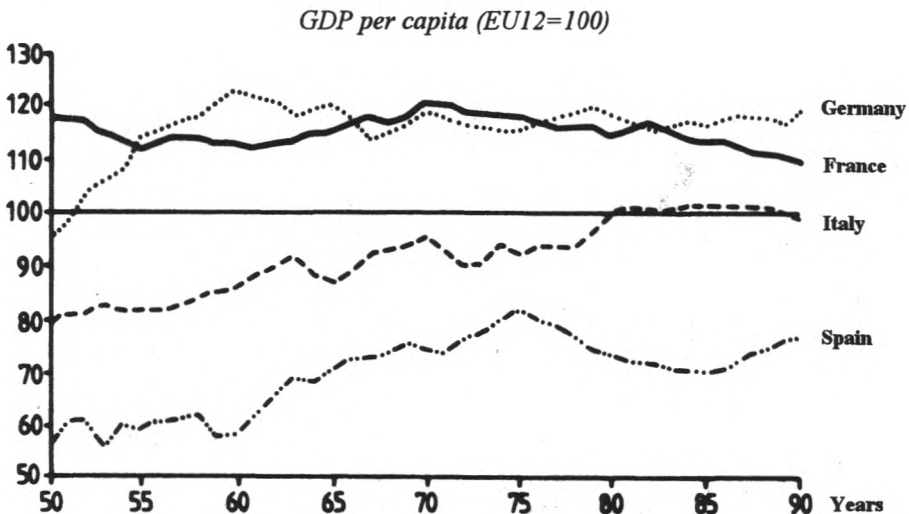


Figure 3.3b

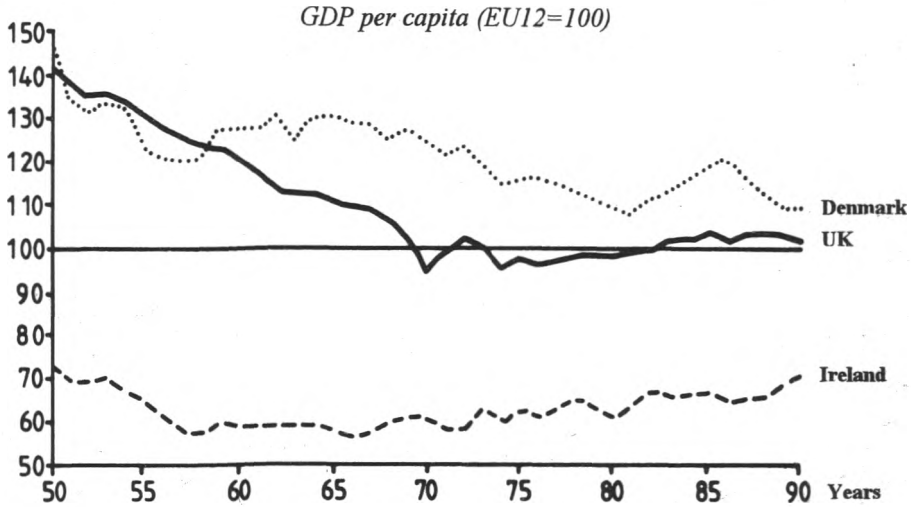
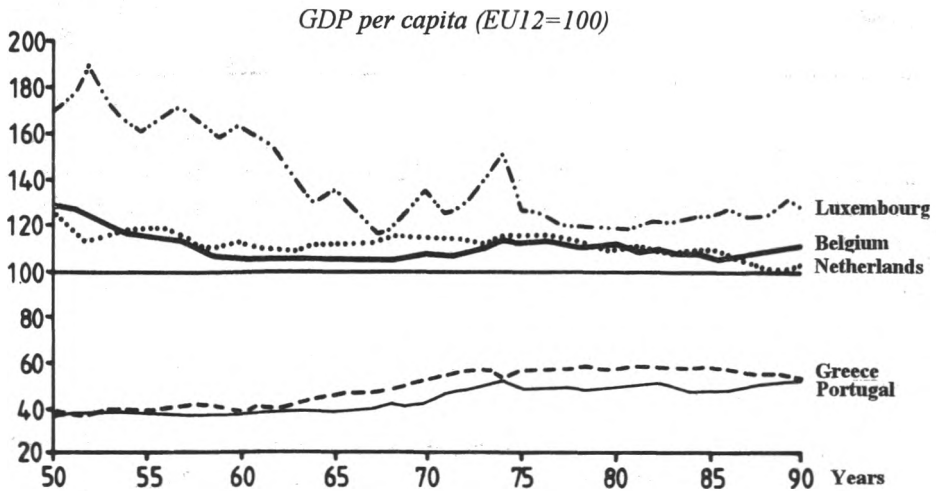


Figure 3.3c



- a) All the countries that at the beginning of the period had a per capita GDP higher than the average of the group, experienced, in the subsequent two decades, a growth equal to or less than the average; on the contrary the countries on the periphery of the community, the Mediterranean countries and Ireland, which set out with below average per capita GDP levels, have grown more rapidly.
- b) In general, the greater the initial distance from the mean, the quicker has been the convergence towards the Community average.
- c) Starting from the seventies no country shows a performance clearly better or worse than any other; on the contrary all the countries of the EEC, with the exception of France, which loses ground slightly, seem to grow at the same rate, keeping the relative distances.

Disparities at regional level

Coming down to regional level, I will try to answer the following questions:

- a) What is the importance of country disparities in the explanation of the observed regional disparities in the EEC and how has it changed over time?
- b) Is there a pattern in the evolution of regional disparities within the individual EEC countries?
- c) Has the reduction of regional disparities given way to a process of polarisation, i.e. left out some of the poorer regions?

The answer to the first question can be given with the help of *Figures 3.4a-b*. Per capita GDP dispersion among EEC regions has diminished considerably, in the post-war period. The reduction of disparities has been, as it was the case with countries, fast in the fifties, slower in the next decade and came to a halt in the seventies.

The share of dispersion explained by the disparities among countries, that made up the weightiest part of the disparities observed among the regions of the European Community in the fifties, has been notably reduced (*Figure 3.5*).

It should be underlined, however, that if for the Europe of "the Nine", the disparity among countries currently contributes in a lesser degree to the diversity of per capita GDP among the regions. For the Europe of the "Twelve" the level of global disparity attributable to the countries is still close to 50 per cent.

With reference to the second question, the evolution of the regional differences within the countries has been similar to that noted between the EEC countries and regions: reduction in the first twenty years of the period, and stabilisation or the tendency to widen from 1973 onwards (*Figure 3.6*). The phenomenon affected all the countries without exception, but is particularly evident in Italy and France which have traditionally had a higher disparity index.

I would like to conclude this part of my paper by attempting to give a provisional answer, however scanty or fragmentary, to the third question.

I can try and do this with the help of *Table 3.1*. If we take the 51 macro-regions which constitute the Europe of "the Nine" we notice that in 1950 they were more or less uniformly distributed around the average. But over time a process of shifting has occurred from the extreme classes towards the central ones. This leads us to exclude the existence of a clear-cut process of polarisation between rich and poor. However if we take a look at the five regions with a per capita GDP below 70 per cent of the

Table 3.1

Distribution of regions per capita GDP brackets, EU9=100

Brackets	1950	1970	1990
< 70	11	7	5
70 - 90	9	13	14
90 - 110	13	18	21
110 - 130	10	11	7
> 130	8	2	4
Total	51	51	51

Figure 3.4a

GDP per capita disparities, EU9

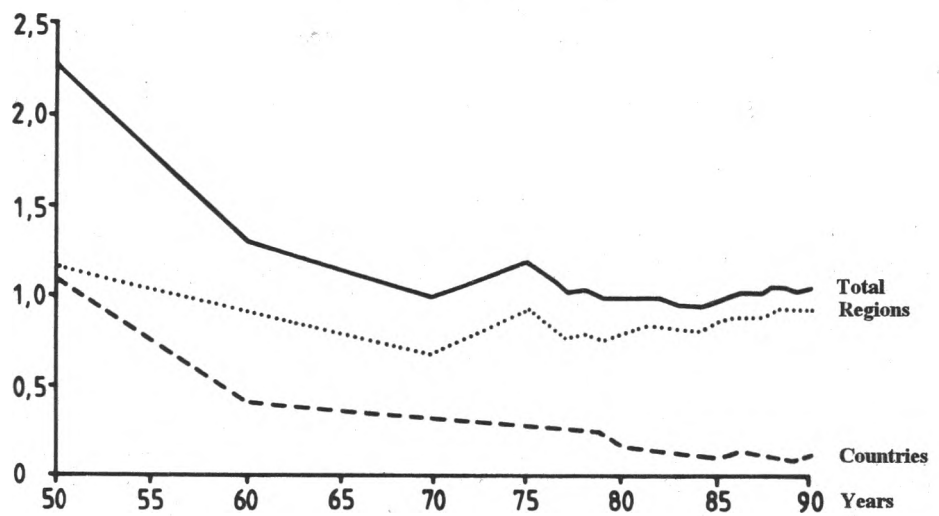


Figure 3.4b

GDP per capita disparities, EU12

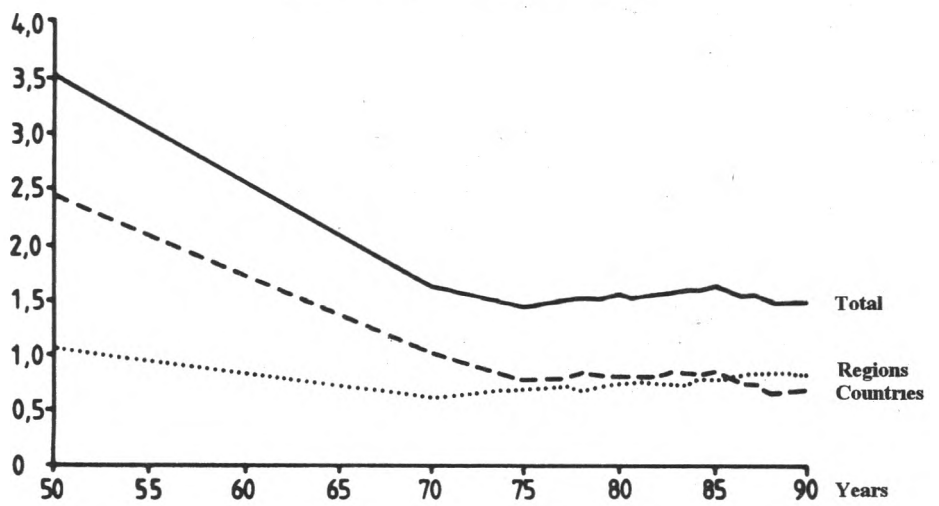


Figure 3.5

Share of countries disparities on the global regional disparities in the EC

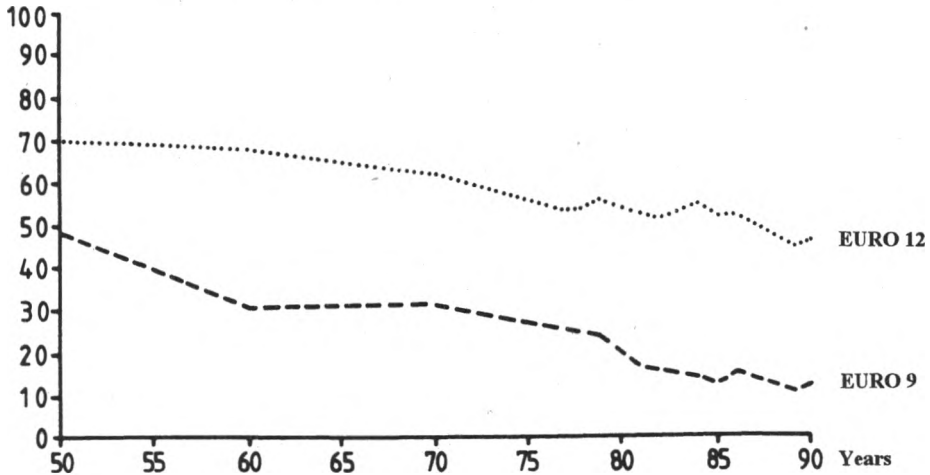
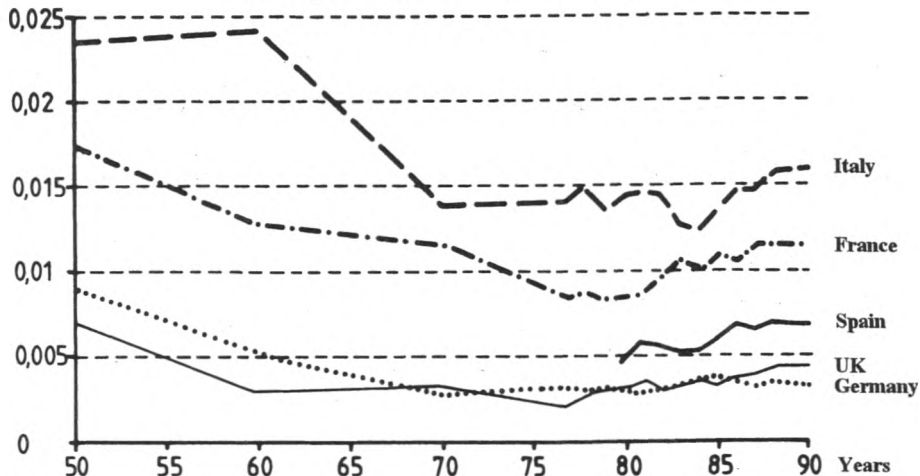


Figure 3.6

GDP per capita. Regional dispersion within countries



community average, in 1990 we find that they all belong to the so-called “peripheral Europe” and that four of these belong to Southern Italy while the fifth is Ireland. All five regions have stayed in the lowest bracket from the beginning to the end of the period. What I would like to emphasise, and this does not appear in the table, is that while the Irish per capita GDP has gone from 56 to 67 per cent between 1970 and 1990, the regions of Southern Italy have shown a slight drop.

This seems to me to indicate the difficulty experienced by the southern productive network in the broader context of the restructuring taking place in Europe.

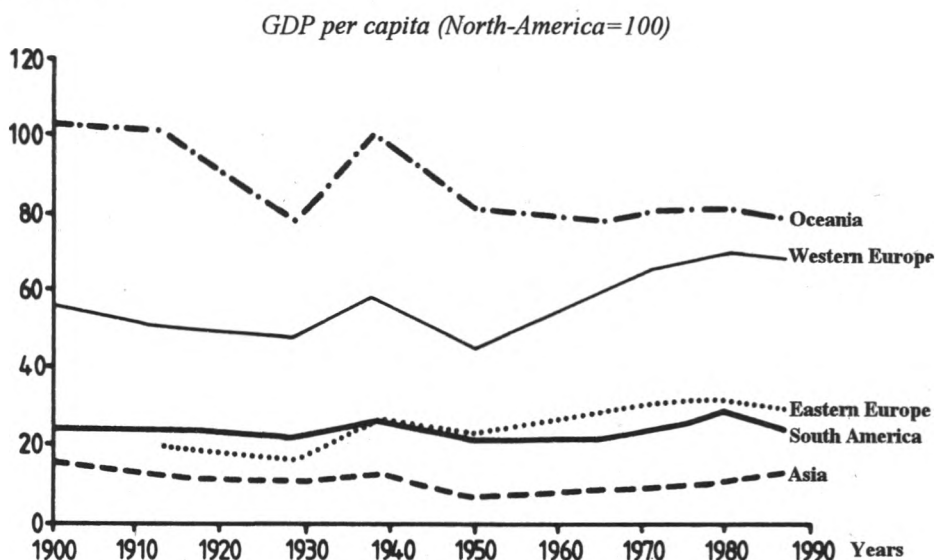
East-West disparities in Europe

Comparisons between centrally planned and market economies have always been clouded by the different institutional frameworks of the two economic systems.

Recently *Summers, R.* and *Heston, A.* have published a revised estimates of the real GDP of formerly centrally planned economies and a more accurate estimate is under way.

The data available show that Eastern countries' catching up with the economic leaders has been modest, if compared with the performance of Western Europe (*Figure 3.7*). Of the former or present centrally planned economies only China has shown very fast growth in the last decades although the absolute level of its per capita GDP is still very low.

Figure 3.7



In 1989 the relative (to the USA) level of per capita GDP varied, according to the above mentioned estimates, between 25 of Poland to 34 of Czechoslovakia, as against an average value of 67 for EEC countries.

Since then the trauma of economic liberalisation has brought about a fall in GDP that is substantial, albeit differentiated, in all countries. Even admitting that the recovery will be fast the distance between Eastern and Western Europe remains substantial.

Concluding remarks

The analysis in the preceding pages is intended to provide some useful points of departure for a reconsideration of the evolution of the disparity in Europe.

It seems to me that its results can be summarised as follows:

- 1) Even if we discard the fifties, considering them a period of mere recuperation of the pre-war relative levels, it is clear that up to 1973 there has been, in Western Europe, a marked reduction of disparities at all levels (countries, regions, and, more generally, between Western Europe and the United States);

- 2) Since then there has been a freezing of the disparities and, in some cases, a tendency to a reopen the gap. Here again the phenomenon has a general character that can be found both across countries and within them, across regions;
- 3) The freezing of disparities has inevitably brought about a, more than proportional, worsening of the labour market situation in the peripheral areas of Western Europe, where phenomena of slow growth of employment have combined with a tendency to increasing participation rates to produce unprecedented levels of unemployment (*Canullo-Pettenati*, 1993);
- 4) The correlation between a general climate of sustained growth and reduction of disparities seems strong and pervasive enough as to leave few illusions that a further substantial reduction of disparities can be achieved without a resumption of the growth process at the international level;
- 5) The comparison between the evolution of countries disparities, as opposed to regional disparities in Europe in the last period of slow growth seems to suggest that the more open a lagging area, the more likely it is that it will undergo backwash effects (more explicitly poor countries inside the EEC have fared marginally better than poor regions within countries);
- 6) The last point raises an important policy issue for Eastern countries. In the first place, as we have seen, the absolute level of disparity between East and West Europe is large and it is unlikely that, even in the best conditions, can be filled in a few years. In the second place the present situation of Eastern countries is hardly similar to that of Western European countries after World War II. In that case there was a problem of recuperation and of technological catch-up with the economic leader, the United States. The catch-up was favoured by a climate of international collaboration that does not seem to exist today. Moreover Eastern countries are trying not only to make a technological catch-up the transition process but are trying to change their whole economic and social system, a much more radical endeavour. The success of the experiment will depend very much on the internal forces of the countries. It is uncertain whether a too rapid opening would speed up, in the present international conditions.

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4 THE DEVELOPMENT OF THE FINNISH-RUSSIAN BORDER AND ITS CHANGING ROLE IN THE SOCIAL CONSCIOUSNESS OF THE FINNS

ANSSI PAASI

Introduction

This paper will first examine briefly the traditional concept of a border in geographical thinking and consider the connection between borders and the formation of regions. It will then go on to outline an approach to the understanding of the significance of borders which is grounded in social and cultural theory. The paper is based mainly on a larger piece of research by the author into the changing geography of the eastern border of Finland (*Paasi, 1992, 1993a, 1993b*).

Borders have always carried a certain special significance in geographical thought, and (*Taylor, 1985*) looks on the border as perhaps the crucial concept in the branch of geography concerned. Attention has been drawn within political geography to the organic connection between borders and the definition of territoriality, for as (*Minghi, 1991*) notes, interest in borders and the landscapes of border areas is in a sense the inverse of regionality. The same writer points out, in fact, that it has been characteristic of political geographers in particular, to concern themselves with the "margins of areas" rather than their core. Geographers in general have traditionally been interested in the influence of "geographical factors", i. e. various physical and cultural factors, on the location of borders, and at the same time on the influence of earlier borders and boundary areas on the landscape.

It is customary in the Anglo-Saxon tradition of political geography to distinguish between the concepts "frontier" and "boundary", the former referring to a zonal transition at the contact between two territories and the latter to an explicit line drawn between the territories. It is the word "boundary" that is usually used to characterise the sovereign nature of territories, since the delimitation of boundaries is one of the principal manifestations of sovereignty.

Although it is commonly held that "boundaries" arose along with nation-states (*Giddens, 1987; Taylor, 1985; Glassner-de Blij, 1980*), who emphasises the global viewpoint, notes that we live nowadays in a mono system world in which zonal "frontiers" are a thing of the past and the "boundaries" are physical lines of contact (or more precisely vertical planes) between territories, influencing the way in which interaction develops between them. Thus it is reasonable to distinguish between zonal frontiers and linear boundaries in this manner.

It is said that the tradition of political geography has generated a great deal of morphological, empirical and generic research into borders, whereas less attention has been paid to their psychological and economic significance (Muir, 1975). This may be partly connected with the fact that political geography carries a certain "risk of subjectivity" with it, a view which can be traced back to the attempts made in the 1920's and 1930's and during the Second World War, to subordinate political geography to ideological ends (Paasi, 1990). Part of the lack of attention or theoretical discussion may also be attributable, however, to the belief that each border is a unique case, so that generalisations will not be particularly fruitful (Prescott, 1965, 1987).

The result is that borders have been regarded as concrete manifestations of human activity and empirical representations of a certain territorial organization. Thus traditional geographical research concerned with borders has often been regarded as limited in scope and empirical in nature. Increasing demands have indeed been expressed recently that borders should be understood as the spatial outcomes of economic, political and cultural processes and not simply as empirically observable phenomena (Rumley-Minghi, 1991). An attempt in this direction will be made below when outlining new points of departure for the geographical study of borders.

The origins of borders and regions

We will not look upon borders here simply as fixed lines, but rather we will consider them as arising out of processes in which certain regions or territories are defined. The construction of territories of various kinds is part of the continuous change or transformation taking place in the spatial system, in which regions emerge, exist for a certain time and may then disappear (Paasi, 1986, 1991; Taylor, 1991). This formation and dissolution of territories is taking place all the time and at many spatial levels, being observable just as well at the local, regional or national level as it is on a broader scale (e.g. Europe as a whole) (Taylor, 1991). Also, the construction of regions carries with it many historical relicts, so that the formation of the borders of Finland, for instance, and the process by which this took place, will differ markedly in significance depending on whether it is examined from the viewpoint of an individual inhabitant of the border area or of the political history of Finland as a nation.

The point of departure here is a view of national boundaries as part of a project by which the construction and maintenance of the territories concerned, their internal social integration, takes place. The ideological foundation for this is nationalism, through which the physical and political territory of a nation is transformed and expressed symbolically as a cultural state. This process may be termed "nation-building", a metaphorical concept which should not be interpreted mechanically. In practice the formation of a national territory and the conferring of symbolic value on it may involve conflicting motives and aims on the part of individuals or groups (Deutsch, 1963), so that a major part of the process of producing a national philosophy consists of presenting the state of the nation as being as united as possible and pointing to clear differences with respect to other territories (MacLoughlin, 1986).

Crucial instruments in the nation-building process are the socialisation mechanisms developed by the state, particularly the school system, through which new generations can be integrated into a certain national community. The significant role of the school

system in social and territorial integration, the construction of divisions between “us” and “them” and the creation of the national stereotypes used for such purposes has been emphasised in the tradition of political geography (Bergman, 1975; Paasi, 1992).

It would be just as natural to think of borders, and particularly their national implications, as located in people’s socio-spatial consciousness rather than simply as physical manifestations of dominion in the landscape of frontier areas. Socio-spatial consciousness is an abstraction by which we will try in this connection to characterise the social generation of regional demarcations, the attachment of significance to these and their justification and supervision. In other words, it describes the relationship between *individuals and social structures* (Paasi, 1993a).

“Structure” is one of the most frequently used concepts in modern social theory, but unfortunately it is rarely defined sufficiently exactly. It should be understood here in the same sense as in the structuration theory of (Giddens, 1984), as referring to the rules and resources that form a basis for the production and reproduction of a certain social system. We can also follow Giddens further and regard this structure as manifesting itself in memory traces and being made concrete in human social activity, i. e. it is not to be looked on as a deterministic force hovering above the human individual.

In order to operationalise the abstraction of “structure” as a tool for use in empirical research, we have to add one element, *tradition*, to Giddens’ fairly unhistorical viewpoint. Tradition refers to various material objects, beliefs, visions, practices and institutions (Shils, 1981) that allow us to understand the emergence of a society’s *collective memory*. It is this *collective memory* that allows events and things from the past to accumulate and merge with the present (Coser, 1992). Thus tradition is an essential part of “structure” and the socio-spatial consciousness. The socio-spatial consciousness of a society gains expression in its activities and practices, some of which also leave concrete evidence in the form of norms, values, rituals, monuments, textbooks, etc.

The case of Finland: East or West?

When Finland gained independence in 1917 it was not long before attempts were being made to pinpoint its position on the geopolitical map of the world. The borders of the new state had in fact already been drawn fairly clearly in people’s minds well before that, during the rise of the Finnish nationalist movement, for the maps, atlases and textbooks used during the Grand Duchy period incorporated both the boundaries themselves and the notion of Finland as a distinct territorial unit – so distinct, in fact, that this caused annoyance in Russian circles, especially during the oppression years (Polvinen, 1984). One might say, therefore, that the geography of Finland, the country’s territorial existence, began to represent itself more and more clearly in the socio-spatial consciousness of the Finnish people as time went on (Paasi, 1992, 1993a).

In practice, however, the border between Finland and Russia was very much an open one during the Grand Duchy period and there was intensive interaction across it. The rise of Soviet Russia and Finnish independence were naturally the events that triggered the drawing of a clear political boundary in the east (Hämynen, 1993). For the new independent state of Finland this was an essential part of the “nation-building” process.

The territorial aim of this boundary reinforcement was demographic integration within Finland, the sovereign act of peopling the country with those who were of “na-

tional stock" and possessed a "national mentality", as was emphasised in many issues of the magazine "Rajaseutu" (Borderlands) in the 1920's and 1930's. A great effort was indeed made in the course of developing the border areas and improving the living conditions of their inhabitants to foster a spirit of nationalism and increase the political reliability of the population. At the same time it was difficult for the local people to comprehend why their ancient usufructuary rights which once extended fairly freely across the border now had to be curtailed (Paasi, 1993a).

A further typical feature to emerge as a result of independence was the habit of emphasising Finland's role as one of the western nations. Although it was customary to make mention of the eastern roots of the Finnish people in a historical sense (e.g. linguistically), there was a great need to create an image of Finland as a western country, often as the last outpost of western Europe. The justification given for this western role was usually Finland's long connections with Sweden and Central Europe.

The historian (Voionmaa, 1933) looked on Finland as a "contact" or "battleground" between east and west, but there were others who would just as well maintain that it was in no way a transition zone but an integral part of the western block, the eastern border of which was coincident with that of Finland itself. The geologist (Sederholm, 1923), for instance, emphasised both the cultural and the geographical links which Finland had with the west. Finland was also perceived as a western country in a comparable manner in overseas literature concerned with political geography (Bowman, 1928).

The intensifying physical and psychological separation from the new Soviet Union was one part of the general international geopolitical trend. Relations in the 1920's and 1930's were liberally tainted with visions of the Soviet Union as the "arch-enemy" of Finland and of Finland as the last bastion of Christianity and western ideals. The eastern border gradually became a mythical representation of a historical and evidently eternal opposition between two states (Paasi, 1990, 1993a).

This opposition was also actively transmitted to succeeding generations through the textbooks used in schools, and in the same geopolitical spirit justifications were sought for extensions to Finland's territory in the east. One source of such arguments lay in the ideas first raised in the 19th century regarding the existence of "natural boundaries" for Finland, and these were adopted as part of everyday political thinking. The question of "natural" and "artificial" boundaries, part of the tradition of political geography, now began to emerge ever more clearly as an aspect of Finnish political geography, and soon came to dominate the terminology of the representatives of this branch of geography in Finland. In the precepts of environmental determinism, it was the natural resource base that provided a country with its "natural boundaries", while human activities provided the "artificial boundaries". In this light the eastern border of Finland was interpreted as artificial. This line of thought reached its culmination in the fourth issue of *Terra*, the journal of the Geographical Society of Finland, for 1941, in which geopolitical ideas tinged with environmental determinism were put forward as a "scientific" justification for Finnish territorial expansion, at the moment when the troops engaged in the Continuation War were advancing over the old boundary to occupy Eastern Karelia (Laine, 1982; Paasi, 1990).

Territorial consequences of the Second World War

The new geopolitical order that arose out of the Second World War meant a vast upheaval as far as the regional integrity of Europe was concerned. By 1946, Winston Churchill had already coined the term “Iron Curtain” to describe the new dichotomy that split Europe down the centre from the Arctic Ocean to the Adriatic Sea, and this concept was soon to establish itself as the two blocks became more firmly entrenched in an east – west confrontation. This new division meant that the traditional notion of Central Europe declined in geopolitical significance and that the ideological landscape of Europe, and indeed of the whole world, was split in two (Cohen, 1964).

New nations emerged at a rapid rate in the years that followed the Second World War, and the idea of the nation-state gained currency on a global scale. At the same time a whole new world-wide regional level could be distinguished in the context of international conflicts as a result of the east – west dichotomy, implying in effect a shift of such conflicts from the level of territorially defined states to that of “people’s minds” (Pounds, 1972). Although academic “geopolitics” declined in popularity after the war, the geopolitical way of thinking was well in evidence in the geopolitical world order that characterised the Cold War, and particularly in the rhetoric employed in connection with this. The world gradually separated out into three parts: “ours”, “theirs”, and a set of disputed areas which had no obvious “owner” or reference group (Taylor, 1988; Gottman, 1973).

Looked at on a world scale, Finland, defeated in the war but still an independent state, undeniably belonged to the disputed, indeterminately neutral camp. The neutrality which formed part of the country’s official foreign policy in the post-war period had the effect of placing it outside the above scheme in a sense, but in reality the country’s image was greatly determined by the agreements concluded with the Soviet Union. Where was Finland really situated?

The cornerstone of post-war Finnish foreign policy was recognition of the country’s “geographical” status. The war had left it with over 1,200 kilometres of border with the champion of the socialist world, the Soviet Union. The Agreement of Friendship, Co-operation and Mutual Assistance concluded with the Soviet Union, the leasing of the Porkkala Peninsula and the increasing economic and cultural ties with the Soviet Union created the geopolitical context in which the Finns set about rebuilding their society. These facts, the loss of Karelia and certain other areas and the task of resettling over 420,000 refugees in other parts of the country undoubtedly did much to alter their appreciation of their position on the border between east and west.

It would be reasonable to claim that Finland lost certain essential “territorial” elements of her eastern character and of the eastern legacy that made up part of her identity at that time. On the other hand, the eastern presence in Finnish society was strengthened by the official agreements made with the Soviet Union. It is only in the 1990’s, in the light of the “Finlandisation” discussions, that any serious attempts have been made to assess where this led in practice as far as Finnish foreign and internal policy was concerned. Although “Finlandisation” had been discussed in one form or another since the 1970’s (Hakovirta, 1975), it is probably only the more recent self-criticism that enabled its true character and extent to be perceived – perhaps with an element of hindsight (Vihavainen, 1991).

Finland and the new world geopolitical order

At the same time as official Finnish foreign policy was attempting to reinforce the image of a neutral country lying between east and west, the geopolitical exponents engaged in outlining the new international order were less accommodating in their approach. Where Finland had still frequently been regarded geopolitical as one of the western countries before the Second World War, many post-war accounts of political geography now regarded her as an anomalous case in the world order – and placed her for practical purposes in Eastern Europe (*Alexander, 1957; Cohen, 1964*). The arguments for doing this were often extremely vague, and seemed to be connected partly with the country's physical location and perhaps more often with the economic and political links between Finland and the Soviet Union. The Friendship, Co-operation and Mutual Assistance agreement in particular was regarded as placing Finland in the Soviet sphere of interest, and was reflected in the country's international image. The former outpost of the west had now become an outpost of the east in geopolitical praxis and in the associated mental images.

Although Finland's cultural ties with Scandinavia were still emphasised in international discussions from time to time, and also the country's strong links with the west, it was geographical position that ultimately determined its location on the geopolitical map of the world. Thus confirmation was obtained for President J. K. Paasikivi's comment on the role of "geography" in determining Finland's international status. The American, *Carlson*, for instance, wrote in 1958 that neutrality is one of the essentials of life for Finland, as "Finland belongs in effect to the Soviet sphere of influence. The Finns can do no more than co-operate with the Soviets on lines laid down by them" (*Carlson, 1958*).

Rediscovery of the East

In spite of the fact that the Finns developed their cultural and economic ties more and more obviously towards the western world during the decades that followed the Second World War and based their foreign policy on a geopolitics that arose out of their country's physical location (*Tuominen, 1990*), the significance of the eastern roots of the Finnish culture gradually began to come to light once more. This was of course attributable in part to the hundreds of thousands of Karelians who had lost their homes and were now dispersed all over the country, as the societies that they founded did much to keep up the Karelian traditions and pass them on to succeeding generations.

The British sociologist (*Urry, 1990*) wrote that a nostalgic memory frequently serves as a construct in social organisation. This is certainly the case where the revival of Karelianism is concerned; and it has meant that, mainly from the 1970's onwards, the active role of the Karelian societies, the efforts of a few local authorities in Eastern Finland and the general expansion of the tourist industry have created a new, reconstructed Karelia in Eastern Finland, a kind of "mental territory". Thus the eastern flavour attached to the "Poet and Border" tourist route involves a mélange of images arising from Karelianism and Orthodoxy just as much as from its high-class hotels and restaurants, summer festivals and monuments from the last war.

The New Karelia, with the reconstructed Karelian farmhouse of Bomba at Nurmes as its figurehead, has certainly succeeded in providing the Karelian refugees with

mental images which can act as a substitute for their lost territory of Karelia, just as it has stimulated business in the tourist sector. Many schemes for building houses in the Karelian style reinforce their commercial interests with a desire to recreate on the Finnish side of the border something of the nostalgia attached to the lost homeland. In other words, the reconstructed Karelia has a clear ideological function as well.

This eastern cultural influence gained further significance originally from the fact that, with the exception of just a few places, it was impossible even to visit the ceded territories of Karelia. It was only Perestroika and finally the dissolution of the Soviet Union that opened Karelia up to tourism. The opening of the border came at an opportune moment, for there are still about 180,000 of the refugees alive today, and an immediate boom in nostalgic journeys to Karelia ensued, with a total of 1.26 million crossings of the Finnish–Russian border in 1991–1992. Most Finns are now familiar with television programmes and newspaper photographs showing former refugees searching the fields of Karelia for something that might bring back memories of their own history and the connections with their homes and past spatial identities which were broken off so long ago. These were journeys into the past as much as journeys undertaken in the present; they were journeys in time as much as in space (*Lehto–Timonen*, 1993).

The peak in the nostalgic journeys has presumably now been passed, and travel in Karelia can no longer be grounded in the exoticism of the east or nostalgia for the past. Similarly tourism in Eastern Finland can no longer appeal to the romantic image of the east to the same extent as earlier, for the simple reason that the real “east”, the ceded territories as far as the Finns are concerned, are easily accessible to all.

It is well known that the changes that have taken place in Eastern Europe have had a considerable impact on the Finnish economy. Finnish–Soviet trade had begun to decline even before the demise of the Soviet Union, and when that event took place it may be said to have collapsed completely in overall terms. The change from the 15 per cent of Finland’s total overseas trade which it accounted for at its best to just a few percent has been a vast one.

The end of the Cold War has also meant a period of rapid economic growth for many areas on the border, and the previously tightly closed boundaries have now developed into points of contact between the two countries. The Finnish–Russian border had been a tightly guarded ideological boundary from the Second World War onwards – in fact some say from Finnish independence onwards – with a rural periphery on either side of it. Now this border is developing into an interface, a contact surface with a new economic significance based on personal interaction between traders, and its economic implications are now being realised increasingly extensively on both sides (*Sweedler*, 1993). Many of the local authorities on the Finnish side have been ready to play an active role in this, hoping to open up routes and connections with Russia in the future and thereby develop the economy of their own areas. Some restraint is obviously necessary in this, of course, in order not to create an image of a form of neo-colonialism directed exclusively at exploitation of the cheap raw materials and labour available in Karelia by the application of Finnish capital.

The question of the restoration of Karelia

One important territorial theme in the eastern discussions in Finland during the present decade has been the possibility of the areas ceded at the end of the Second World War

being returned to Finland, a question raised most actively by representatives of the Karelian societies. Some discussion along these lines had been going on ever since the war, but it was only with the collapse of the Soviet Union that the demands came out into the open (Laine, 1992). As recent events have shown, certain former and current politicians have raised this question in various contexts, each for motives of his or her own. No support for such conjectures, however, can be derived from either official Finnish foreign policy or the approach adopted by the Finnish Border Patrol Establishment in its practical measures. Official opinion on the matter in Finland coincides precisely with that expressed by the Russian authorities.

The bridge between East and West – an evaluation

The purpose of this paper has been to assess the significance of national borders by reference to socio-spatial consciousness and the process of nation-building rather than setting out from the borders themselves. This approach permits dynamic analysis and helps us to understand the constantly changing significance of borders. The present example shows that markedly different significance have been attached to the Finnish-Russian/Soviet border in the Finnish socio-spatial consciousness at different times. During the Grand Duchy period the border was a clearly defined one in the context of the Finnish nation-building process but remained open in practice. Once Finland gained her independence it became an ideological border, a major symbol of the differences that existed between the two states. The principal ideological task from the Finnish point of view was to "fill" the sovereign space available to the nation with a population that was "of one mind". As a consequence of the Second World War, the territorial losses incurred by the Finns and the clearer ideological dichotomy between east and west altered the nature of the border yet again, and it became a closed area between east and west, sealed with a border zone, and at the same time constituted virtually a taboo in Finnish social policy discussions for many years. It was only with the collapse of the Soviet Union that it became one of the major topics of discussion in Finland, with the questions of the ceded areas of Karelia and supervision of the border areas emerging as prominent themes.

It has been seen above that the question of the location of Finland in the east or west has always been a relative one, both historically and geographically, the answer being dependent on the respondent's own position on the map of the world.

The recent breakdown of the sharp border between east and west has opened up opportunities for Finland to profit from her location as part of both. It will scarcely be worthwhile for Finland to act exclusively as a bridge, however, even though transit traffic to third countries may prove to be one of the most rapidly expanding forms of joint economic activity in the future. A more positive outlook is needed, for as Donner (1988) pointed out when analysing the bridge metaphor, "the traffic seldom stops on a bridge". Realisation of this fact will be an important background factor in the future in all private and public sector development and co-operation projects aimed at promoting economic and social progress in the border areas and shaping economic development as a whole. It is in this way that the Finnish-Russian border can be most efficiently transformed from a barrier into a vehicle for interaction.

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5 THE PRESENT SOCIO-ECONOMIC SITUATION IN CENTRAL AND EASTERN EUROPE

TERÉZ KOVÁCS

I would like to give a survey of East-Central Europe from the points of view of continuity and change. Today Central and Eastern Europe is not a primarily geographic region but an area where the last 4 to 5 years have witnessed the beginning of a change to which nothing can be compared in Europe since the Second World War. The division of Europe started with the 11th century split in the church when Christianity fell apart into western and eastern branches. Then, from the beginning of the Middle Ages, and especially from the 18th century, the periphery of Western Europe took shape, including the present Baltic states, Poland, the Czech Republic, Slovakia, Hungary, Croatia and Slovenia, which, in terms of economy, has increasingly lagged behind the western part of the continent. This is what has been regarded as Central Europe for centuries; and what is east of it Eastern Europe. The latter is constituted by the eastern part of the former Yugoslavia, Albania, Bulgaria, Rumania and the Commonwealth of Independent States (CIS).

During the last few years, the disintegration of the former Yugoslavia, Czechoslovakia and the Soviet Union has resulted in the creation of about 20 new countries. From this point of view, the present situation can be considered similar to that after the First World War when empires collapsed and new states were formed in this part of Europe; and when, just like now, radical changes took place in the economic and commercial relationships which had been developed by that time.

Some sociological characteristics of the East-Central European region

Similar to the significant differences among western democracies, the countries of the region vary to a great extent. First, they are quite different in size. The former Soviet Union is obviously the biggest, followed by Poland with its population of 40 million, while the smallest is Slovenia with 2 and Estonia with 1.6 million inhabitants. The European Union has been endeavouring to integrate those post communist countries which they consider to be integrateable. From the point of view of integration into Europe, Central Europe can be divided into two parts. On the one hand, there are the so-called "Visegrád countries": Poland, Hungary, Slovakia and the Czech Republic, which are inevitably advancing towards the European integration. These countries have already been made associated members of the European Union and expect to

become regular members around the year 2000. The rest of Central Europe covers the southern and northern countries of the region. The fact that Croatia is at war excludes it from potential integration into Europe. Although its economic indexes place it among the leading Central European countries, Slovenia is having many difficulties in establishing connections with Western and Central Europe. The Baltic states have declined economically because they must pay higher prices for Russian oil and other goods coming from the CIS than other countries.

Comparing the western, central and eastern parts of Europe from a sociological point of view, a differentiation can be made on the basis of civilisation and culture. The former includes cleanliness, confidence, order, discipline, self-control and tolerance; just to mention the most important things. From this point of view, the backwardness of the whole Central European region is beyond question; it rather belongs to the Third World than Western Europe. This is not the case, however, as far as culture is concerned including the state of culture during the last 40–50 years as well. I use the term to refer to the level of humanities. I mean particularly, for instance, that Hungarian secondary school students have learn more about Balzac, Shakespeare or the Kalevala, and have therefore obtained more knowledge about the French, English or Finnish cultures than the students of these countries about world literature and the peoples outside their world. The welfare societies of Western Europe have not produced needs of this sort. It is a great thing that, in this sense of the word, East-Central Europeans have been able to feed and preserve our Europeanism, during even the dictatorship of monolithic power. As a consequence, they know Europeanism better than those who had the opportunity to do so. From this point of view, we have nothing to compensate for, while in the field of civilisation we must certainly make efforts to catch up with Europe if we do not want to sink to the level of the Third World.

Central European countries lived a European way of life for about a thousand years, although being poorer than Western Europe. As far as their wishes and partly their needs are concerned, they have always been Western Europeans. In terms of the fulfilment of needs and in terms of the opportunities, the continent can be divided into three regions. The fact that in Western Europe the two are in harmony produces a high standard of living. Real needs exist only when people are willing to work more in order to establish a better life for themselves. In Central Europe the expectations are great, while the fulfilment of them is at its lowest point. In Eastern Europe, except for a very narrow circle, there are neither needs nor opportunities, or if there are, they are definitely worse than in Central Europe. Problems always arise where the mass need for a better life, culture and civilisation is missing. As far as opportunities in Central Europe are concerned, it can be said to be better if one is at least always looking out of the window, watching the other side of the fence and dreaming of what the people who live there have. This creates quite a different state of mind than sitting in the middle of a waste land and seeing the very same thing all around. While intellectually Central European countries declared that they belong to the West, they were forced to live among rather eastern circumstances. Existence here has obtained a special, often unbearable, tension and insecurity. Therefore it is not by accident that the top rates in suicide statistics are occupied by two Central European peoples, the Czechs and Hungarians.

The present economic situation of Central and Eastern Europe

At present, experts and responsible politicians both from the east and from the west acknowledge that the regional differences that developed many centuries ago between the western and central parts of the continent, cannot be eliminated for a long time. It is true to an increasing extent for Eastern Europe. No political and bourgeois revolutions took place here, therefore economy and politics have not been separated to such an extent as in Western Europe. Hungary between the two world wars was characterised for example by the dominance of the state, the lack of political democracy, and feudal restrictions and attitudes. From the economic aspect, the country was connected to the world market and there was some sort of continuous modernisation as well which affected mainly the urban, but hardly touched the agricultural population, although they constituted half of the nation. This modernisation process braked after 1945 because the country joined the Soviet bloc.

In Central and Eastern Europe bizarre social systems have been developed during the last 40–50 years. One of their most important characteristics is the elimination of civil society, market and autonomous economy. The Soviet Union was present in these countries not primarily through its troops, but through the maintenance of dependent personal relationships. Consequently, we must sign up for the first grade of the great European economic school to learn things like what goods, risk, credit and confidence are. That is how to behave economically.

The fact that within COMECON trade was based not on the market but on annual bilateral treaties is well-known. Prices were more or less regulated artificially regardless of production costs. The means of payment was the so-called convertible rouble – which was not really convertible. Even if a country, for example Czechoslovakia, had a positive rouble balance of payments with the Soviet Union, they were not allowed to use this financial resource to buy goods from other COMECON countries. In 1987 the Central and Eastern European countries performed 70 per cent of their trading among one another. COMECON was not what its name suggested, the Council of Mutual Economic Assistance, but the biggest obstacle to mutual economic development. From 1991 the former COMECON countries changed their accounting to convertible currency. Unfortunately, this switch alone is not satisfactory since they do not have enough convertible currency to trade with one another.

In the centrally controlled socialist economy, capital was placed under public ownership which, according to the classics of Marxism, should have ensured the victory of the socialist system over the capitalist market economy. It is all too well-known, however, that in reality it brought about the collapse of the socialist system instead. Furthermore, the idea of common property has managed to cause serious mental deterioration in the population from which recovery will be extremely difficult, since it has developed the attitude of “what belongs to everybody, belongs to no one”. The consequence is carelessness, wastefulness and living from one day to the next. Simultaneously, the socialist state was an provident one in that it provided free education and social security for its all members. Many people, mainly the urban population and those with higher education, and especially the members of the party, were indulged by free or extremely cheap accommodation and low utility costs. Where

there was enough, food was very cheap in Central and Eastern Europe, while the level of infrastructure and services remained low. At present it is not enough in these countries to restore private ownership rights, but laws should be made to establish the legal and economic background for their functioning. Since there is a vast number of new laws to be passed, the parliaments set up after the changes must cope with an enormous task. (Nevertheless, the majority of the population does not care about this task, but is concerned with questions of their own everyday struggles.)

Three different ways of privatisation can be distinguished in East-Central Europe. Privatisation from below covers the development and improvement of new private enterprises; privatisation from above means the transformation of state property into companies of shareholders and then selling it through privatisation agencies. The practice of giving back state property to former owners falls somewhere between the first two. The most frequently debated issue concerning privatisation is how quickly state property can be broken down and placed under private ownership. Some parts of land and most retail trade and services have been privatised, but the most complicated and crucial question is the privatisation of state-owned industrial companies of middle to large size. Some governments, which must face serious loss of confidence and discontent among the population, are trying to keep these companies in the hands of the state in order to strengthen their power through exercising influence on them.

Privatisation in East-Central European countries cannot be compared to the similar processes of Western countries, since they must carry out privatisation and structural change simultaneously; that is to produce goods which can be brought to the world market. Furthermore, since the necessity to close down whole company divisions and dismiss their workers is quite a common phenomenon in East-Central European privatisation, governments must decide whether to handle the unemployment issue simultaneously with the decision-makings of privatisational concern or not.

The cardinal problem of East-Central European privatisation, structural change and development is the lack of capital. Although it is in the field of capital investment where Western Europe could help the most, as a consequence of the region's political instability, the underdevelopment of infrastructure and the regression of Western European capital export, foreign investments are far below the expected level. In 1991, Mexico alone could attract more capital than the whole Central and Eastern European region. Half of the total investments came to Hungary where 7,000 million USD worth of capital was invested from the systemic change to the end of 1993. In this area the Czech Republic takes second place.

The economy of East-Central Europe is in chaos and crisis. The external debts are high, the budgets are showing a deficit, the GDP is decreasing (*Table 5.1*), while the unemployment (*Table 5.2*) and inflation (*Table 5.3*) rates are increasing and the average earnings are low (*Table 5.4*). Several negative things can be said concerning the last 50 years of the economy of the former socialist countries, but it is an undeniable fact that it produced a 5.6 per cent annual growth of GDP on average. This index fell back to 1.5 per cent in the 80s and has been continuously declining in each East-Central European countries since the political changes. The collapse of the armaments industry and the wasteful economy first led to the decline of agricultural, then industrial production. There are depressed countries in the region, such as Albania, where the food-supply of the population can be maintained only with foreign

aid. It is a promising fact, however, that there was at least one country in 1992 whose industrial production showed an increase – Poland (*Table 5.1*). The countries of the former Soviet Union must suffer from the worst situation, where the average GDP decrease is 35 per cent; especially in the central countries which are involved in conflict: Moldavia, Tadjikistan and Azerbaijan. There is no need to explain the decrease in Serbia and Croatia, both at war. (Serbia has reached a daily inflation rate of 20 per cent.)

In order to form a picture of the present socio-economic situation of East-Central Europe, at least one political factor must be mentioned. The region has reached a state when democracy itself is threatened by economics. Except for a very small circle, everyone expected the political changes to result in instant economic welfare. Not only has this hope not been realised, but millions of people have had to face a worsening financial situation. People are now afraid of the coming of an even worse tomorrow, and the fear of the institutions of a civil society is already present to an increasing extent. Some politicians are taking advantage of this and promise national collectivism. What makes this sort of policy deceptive is that they speak about real problems, but the solutions they offer, if something is offered at all, are far from realistic. The whole process began when the power relations resulting from the first parliamentary elections could not survive for long. Not only governments but parliaments were overturned and new elections had to be called after one or two years. In the beginning, it came as a surprise that the successor parties of the former communists could win in countries like Lithuania or the Catholic Poland. Quite recently, we must wonder at the fact that the party of Milosevic, the initiator of the Southern Slav War, could win for the third time. And now the wild and irrational nationalism of *Vladimir Zhirinovsky*, leader of the party which obtained the most votes at the last Russian elections, threatens the peace in the whole of Europe.

Table 5.1

Changes in GDP and industrial production during the period of transition

Country	Changes in GDP, %				Changes in industri, %			
	1989	1990	1991	1992	1989	1990	1991	1992
Albania *	11.7	-13.1	-30.0	8-10 ⁺	5.0	-7.6	-42.5	no data
Bulgaria *	0.3	-17.5	-25.7	-22.0	2.2	-12.6	-23.3	-22.0
Czechoslovakia	1.4	-1.4	-15.9	-7-8 ⁺	0.8	-3.5	-24.7	-11.0
Czech Republic	2.4	0.8	-19.0	-7.1	1.7	-3.3	-24.4	-10.6
Slovakia	1.1	-3.8	-19.3	-6.0	-1.3	-4.0	-25.4	-12.5
Croatia	-1.5	-8.5	no data	-24.3	-1.0	-11.0	-28.5	-14.6
Yugoslavia (Serbia+Montenegro)	1.9	-8.4	-11.1	-27.0	1.0	-11.7	-17.4	-11.9
Poland	0.2	-11.6	-7.6	0.5-2 ⁺	-0.5	-24.2	-11.9	4.2
Hungary	0.4	-3.3	-11.9	-4-6 ⁺	-2.5	-4.5	-19.1	4.2
Rumania	-5.8	-7.4	-13.7	-15.4	-2.1	-17.8	-19.6	-22.1
Slovenia	-0.5	-3.4	no data	no data	1.7	-1.2	-12.4	-13.2
Soviet Union *	2.5	-4.0	no data	no data	1.7	-1.2	-12.4	-13.2
CIS*	no data	no data	-10.1	-18.5	no data	no data	-7.8	-18.2
Azerbaijan *	-8.9	-11.3	-0.4	-28.2	0.7	-6.3	4.8	-24.0
Byelorussia *	8.2	-2.4	-3.0	-11.0	4.6	2.1	-1.5	-9.6
Kazakhstan *	-0.1	-0.9	-10.3	-14.2	2.5	-0.8	-0.9	-14.8
Kirghizia *	4.5	4.8	-5.2	-26.0	5.2	-0.6	-0.3	-26.8
Moldavia *	8.8	-1.5	-18.0	-21.3	5.7	3.2	-11.1	-21.7
Russia *	1.6	-4.0	-11.0	-20.0	1.4	-0.1	-8.0	-18.8
Armenia *	8.4	-8.2	-11.4	-42.6	-8.3	-7.5	-7.7	-52.5
Tadzhikistan *	-6.5	0.2	-8.4	-31.0	1.8	1.2	-3.6	-24.3
Turkmenia *	-7.0	1.8	-0.6	no data	3.3	3.2	4.8	-16.7
Ukraine *	5.0	-3.6	-11.2	-15.0	2.8	-0.1	-4.8	-9.0
Uzbekistan *	3.1	4.3	-0.9	-12.9	3.6	1.8	1.5	-6.2
Georgie *	-3.4	-4.3	no data	no data	0.7	-5.7	no data	no data
Estonia	6.6	-3.6	-12.6	-28.0	0.7	-5.6	-9.0	-38.9
Latvia	7.4	-1.4	-7.9	-43.9	3.1	-0.2	-0.1	-35.1
Lithuania *	1.6	-6.0	-6.7	-35.0	4.2	-2.8	-4.9	-51.2
Former GDR	2.1	-14.7	-33.9	6.0	2.3	-28.1	-28.1	-6.0

Source: Economic Analysis of Europe 1992-93 (UN Economic Committee). New York, 1993.

Notes: + estimated data; * national income instead of GDP.

Table 5.2

Number and proportion of registered unemployed as at January 1993

Country	Number	Proportion
	of unemployed	
	1,000	per cent
Bulgaria*	577	15.9
Czech Republic	158	3.0
Croatia	262	18.5
Yugoslavia (Serbia+Montenegro)	749	24.8
Poland	2,584	14.0
Hungary	700	13.3
Rumania	949	8.5
Slovakia	286	11.2
Slovenia*	118	13.3
CIS*	800	0.7
Russia	628	0.8
Former GDR	1,190	15.0

Source: Economic Analysis of Europe 1992-93 (UN Economic Committee). New York, 1993.

Notes: * December 1992.

Table 5.3

Growth of consumer prices

Country	Inflation rate, % ⁺	
	1991	1992
Albania	104.1	249.1
Bulgaria	338.5	79.3
Czechoslovakia	57.9	10.8
Czech Republic	52.0	11.1
Slovakia	58.3	10.0
Croatia	124.2	634.0
Yugoslavia (Serbia+Montenegro)	121.8	9,337.0
Poland	70.3	43.0
Hungary	35.0	23.0
Rumania	165.5	210.4
Slovenia	117.7	201.3
CIS	89.1	852.0
Russia	91.8	1,110.0
Estonia	155.8	1,076.0
Latvia	172.2	951.2
Lithuania	216.4	1,020.8
Former GDR	17.3	11.0

Source: Economic Analysis of Europe 1992-93 (UN Economic Committee). New York, 1993.

Notes: + compared to the previous year.

Table 5.4

Gross average earnings per month as at December 1992 (in USD)

Country	Gross average earnings
Bulgaria	119.8
Czech Republic	191.6
Estonia	62.7
Croatia	106.5
Poland	208.5
Latvia	53.6
Lithuania	19.2
Hungary	366.7
Russia	31.0
Rumania	75.8
Slovakia	187.4
Slovenia	438.7
Former GDR	1,568.8

Source: Economic Analysis of Europe 1992–93 (UN Economic Committee). New York, 1993.

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6 THE EUROPEAN INTEGRATION FROM THE SLOVENIAN VIEW POINT

ANTON GOSAR-VLADIMIR KLEMENČIČ

Perspective

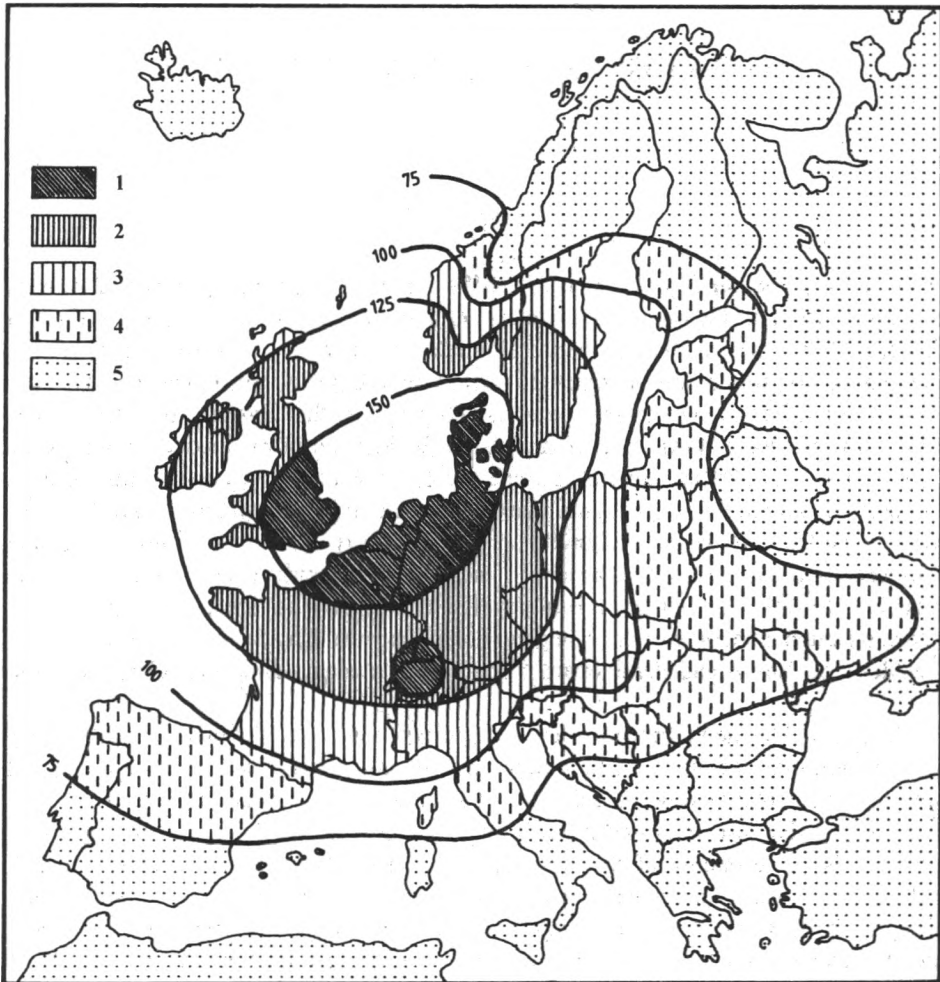
Johann Heinrich von Thuenen's (1783–1850) theory on forces and processes that were shaping Europe in his time, never underwent a serious testing in Central and Eastern Europe. The world's first geographical model produced by a Rostock farmer and economist of Prussia was to much in favour of European centralism and Western dominance to be accepted by the countries and people of the "Eastern periphery". The effects of distance and transportation costs on the location of productive activity, were most often disregarded. Central Europe's role in Europe's economy was seen as supportive, but not dominant. Within von Thuenen's rings of economy, Central Europe was regarded even by his followers in – this century *Samuel van Valkenburg* and *Colbert Held*, at best, as a zone of "increasingly extensive field crops" Poland, Czechia, Slovakia and in part Hungary (Budapest) and particularly as an area of ranching and animal production Hungary (Pécs), Rumania, Croatia and Slovenia and as a "wilderness" Bosnia and Herzegovina, Yugoslavia, Macedonia, Bulgaria, Albania (*Figure 6.1*).

Since von Thuenen's time of study, Europe experienced spatial changes particularly in transportation technology which permitted the micro-scale isolated state to expand and become a macro-scale model. Thus, the model is no longer centred on a single city, but on the vast urbanised areas lining the coasts of the Atlantic. This area now commands the economy of the continent. The "Blue Banana" development model, introduced recently, is in general a modern synthesis of the von Thuenen theory. Despite the fact that it meant to impress French planning authorities (and thus, does not include French territories), its objective was to identify the core region of the European economy, the density of wealth, and to promote the leading horse(s) of the continent. The half-moon shaped zone stretches from Europe's NW to SW. It includes the area of Northern Italy which is of a particular importance for the development of the young nation-state of Slovenia (*Figure 6.2*).

Slovenia as a nation-state within modern Europe

The major force of the European restructuring of the 1990's is the European Union. The 12 countries of Western Europe and Greece are not only well off in on economic

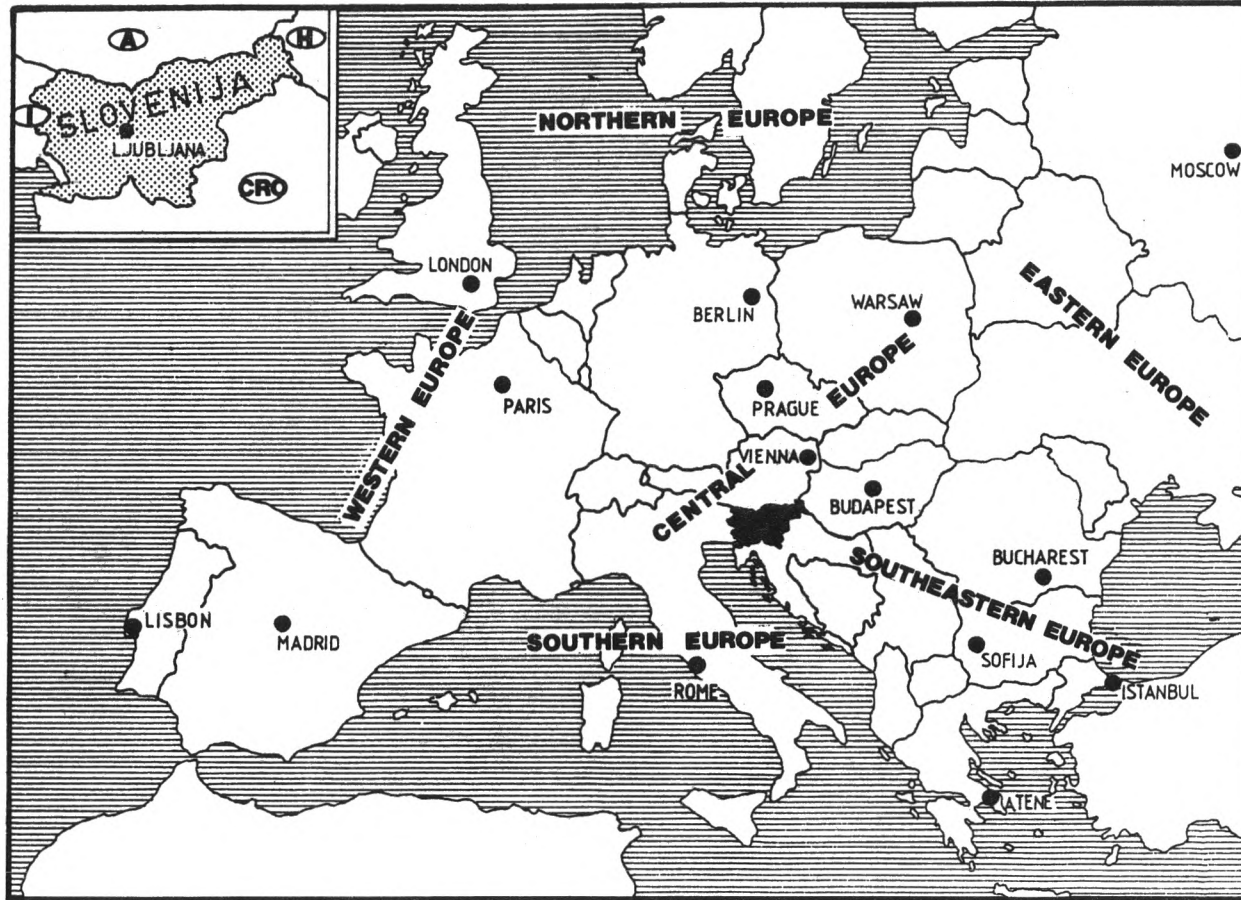
Figure 6.1

The von Thuenen view of Europe

Key: 1=Commanding urban core area (inclusive farming & dairying); 2=Forests; 3=Extensive field crops; 4=Ranching, animal products (peripheral core supporting area); 5=Wilderness.

Figure 6.2

Slovenia in Europe



sense, but have developed goals of integration which seem to be a suitable aspiration for most other European Parliament member states. Petitions are placed by different countries to incorporate their nation-states and economies into the confederation. The applications by most of Slovenia's neighbouring countries are accepted or are seriously considered. Italy is a founding member; Austria, as an EFTA-member state, has considerable privileges and is soon to be incorporated. In Hungary, where restructuring towards market economy and democracy is the fastest, basic policies are supportive of western alliances. The fact that the country belongs to the Visegrád Group of states, enables Hungary to make a smooth transition into it (EU). Part of Croatia's territory is occupied and claimed by neighbouring Serbian quasi-states. Because of the uncertainty of this dispute and the war in Bosnia and Herzegovina this Slovenian neighbour has weak chances of being treated equally with other petitioners.

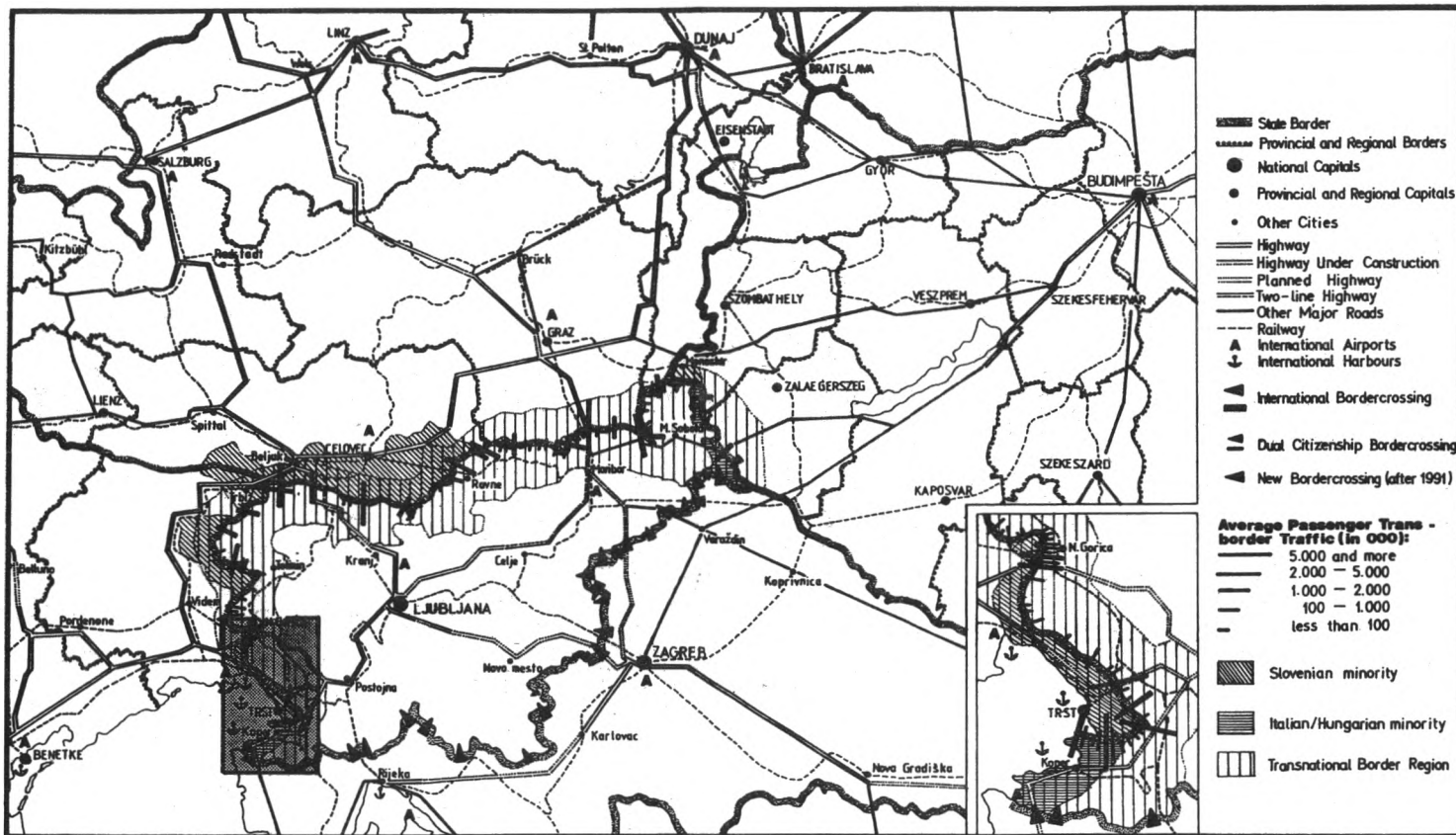
Slovenia is, in regard to the discussed socio-geographic model, on the edge of "the wilderness". The common border with Croatia is the border between European countries at peace and European countries at war. The common border with Italy separates the country from the benefits and duties of western alliances (EU/CE/NATO/WEU). The common border with Austria divides almost equal natural conditions and diverse socio-economic systems (EFTA). The common border with Hungary was the post World War II "Iron Curtain", due to which cross-border links are, in comparison to other neighbouring states, less developed – despite mutual economic interests (the Mediterranean/the Danubian basin).

Slovenia is, considering culture, the most westerly positioned Slavic island of South-Central Europe bordering Romance, German, Ugric and South Slavic nations. Since the country's natural composition is of equal diversity, as it encompasses the ecosystems of the Alps, of the Mediterranean, of the Danubian (also Pannonian) plains and of the central karst areas of Europe, one justifiably characterises Slovenia as a major transitional area of the continent (*Figure 6.3*). Slovenia's geopolitical position within Europe is therefore of particular importance. Slovenia is supportive of all three development scenarios discussed recently in Brussels:

- the European Central Axis Model (London–Brussels–Frankfurt–Milan),
- the Isolated Metropolitan Regions Model (like: the Milan MA, the Munich MA, the Vienna MA, the Budapest MA),
- the Intraregional and Intrametropolitan Co-operation Model (the s.c. Core/Axis Model) which is in part a combination of both named above.

Understandably, priority is given to the model which calls for an interregional co-operation. Within this model Slovenia could realise its own intentions most easily. Otherwise would be the youngest nation state in Europe, be forced to accommodate other states' and regions' development policies. In this case Slovenia's territory of 20,256 km² and 2.1 million of inhabitants would be asked to adapt its economy to the interests of Milan, Lombardy and Italy or to be the outer ring of the Budapest, Vienna, or Munich Metropolis. (The von Thuenen outer ring of the Isolated State is the wilderness!)

In reference to scenarios, Slovenia's is often on the centre stage of Brussels theatre because of transportation routes. Two major traffic corridors or development arteries could impact or/and improve economy, society and appearance of the country, if



planning would proceed according to the scenarios of the EU. The war on the Balkan peninsula has interrupted the air, rail and highway corridor from the North Sea to the Eastern Mediterranean (Hamburg–Athens), linking the EU-member state Greece with the core area of the Union. Since no end of the war is in sight, the interest to develop this route has diminished not only in Brussels but in Slovenia as well. Very much to the disappointment of the Croatian government.

On the other hand the opening of borders towards Central-Eastern Europe, and the loss of power of the “Russian Bear”, has introduced new markets and other, new (outer?) rings of development. In this respect, priority was given to plans which would anticipate improvement of traffic conditions and construction of highways along the corridor from Barcelona to Kiev. The reinforcement of this route could improve economies of Southern and Central Europe and, in particular of Slovenia and Hungary. For the first time in history, a direct, modern, traffic artery would link the Danubian and Mediterranean basins. Koper–Trieste–Venice would, as ports, support Rijeka, which was once the only Mediterranean harbour of the Magyar part of Austro-Hungary. The Slovenian port of Koper with annually 4.9 million tons of transshipment, is particularly looking forward to that. Hungarian, Slovak and Austrian firms are Koper’s main partners. Along the way, the Slovenian population and production axis Ljubljana–Maribor could be further developed.

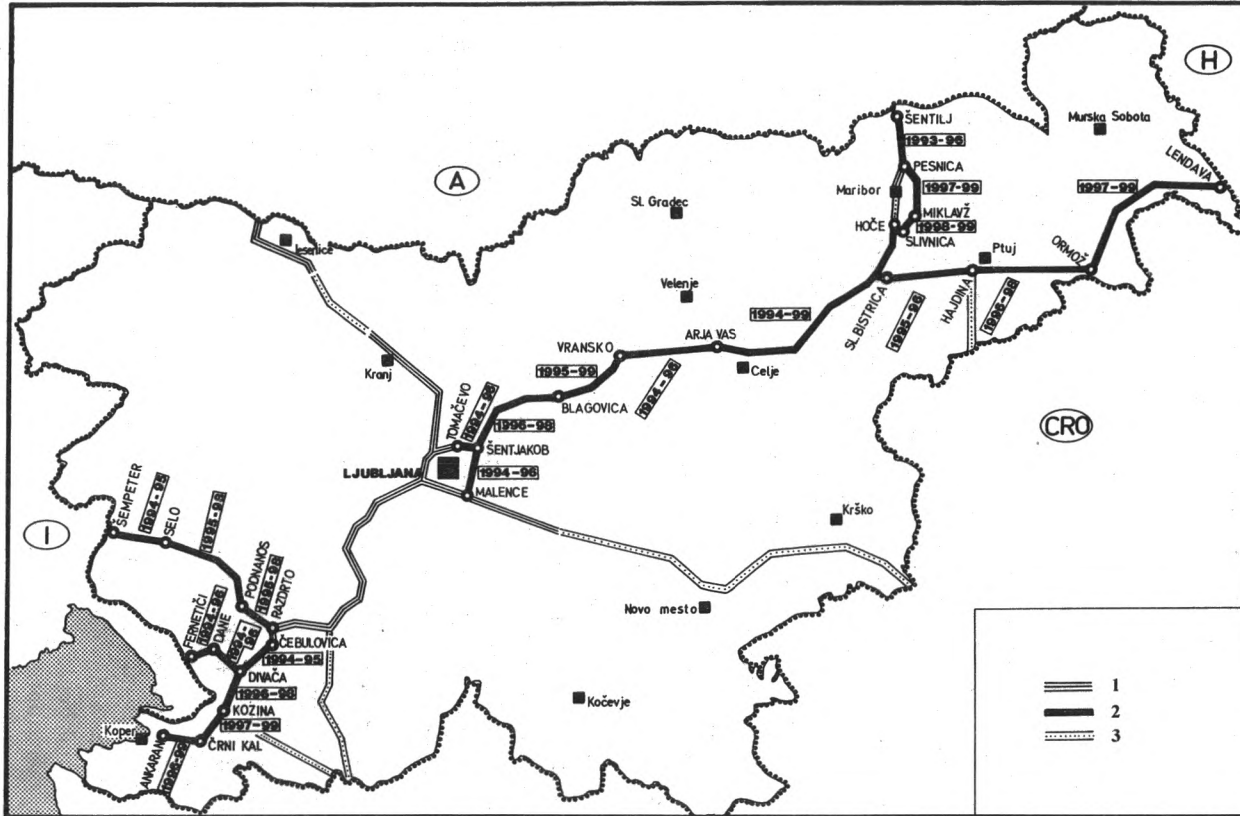
In October 1993 agreement was reached and documents signed to construct a 19 kilometre long stretch of a railway (Murska Sobota–Hodoš–Zalalövő) setting up the linkage between the Slovenian and the Hungarian railway system. Interestingly enough, the new traffic line is going to be build partly on the path of the old railroad which was closed and later removed due to “Iron Curtain” circumstances. The World Bank was supportive of this construction and other improvements of Slovenian Rail. The train timetable has in 1993, for the first time in history, introduced a direct passenger train Budapest–Trieste–Venice (at the moment crossing Croatian territory). Between Ljubljana and Budapest a roll-on, roll-off service for trucks was introduced. The border formalities are executed at train’s boarding posts and the in average 4–5 hours waiting period at border-crossings has been eliminated.

In Slovenia, 318 kilometres of four-lane highways should be constructed in the time-span of the next five years (1993–1999). Fifty three kilometres a year! With no exception, all are bound from EU Italy towards “soon to be member” Austria and “sure to be member” Hungary. The investment, 1,496 million US dollars is to a large percentage going to be financed by Slovenian funds. A special gasoline tax was therefore introduced. The Italian government and firms, as well as world’s major financial institution have promised help too. The plans to improve the highways from Austria towards Belgrade (the Tauern Route/the Phyrn Route) have been left in drawers. Often to the disappointment of Slovenes as well. The well constructed and recently (1992) opened 7,864 metre long Karawanken-Tunnel (Ljubljana–Salzburg–Munich) will have no straight, four-lane highway continuation (*Figure 6.4*).

To develop functions which would be supportive of the EU, Slovenia must at first develop a basic infrastructure. Rail and roads, as well as pipelines, are Slovenia’s first priority. Considering general societal changes and developments, and improvements of information media, one must not overlook other communicational systems. The Slovenian telephone system is, with 112 people per telephone, still in the agrarian age

Figure 6.4

Slovenia: proposed four-lane highway construction, 1993–2000



Source: Ministrstvo za promet in zveze, June 1993.

Key: 1=Constructed highway; 2=Proposed works 1993–1999; 3=Highways to be constructed after 2000;

development. Other electronic informational and communicational systems need to be introduced. Without any improvement at all, Slovenia might end up being an obstacle of the European integration and a burden to neighbours.

One of the ways to improve its own economy would be to create trans national functional regions, disregarding administrative borders and physical barriers. The rudiments of cross-border co-operation were already put in place in the region of Northern Adriatic in the 1970's. In the Friuli-Venezia-Giulia region and in Slovenia, special funds were provided to enable linked economic growth. To economies in the border provinces of Italy, Austria and Slovenia, information on complementary production was jointly offered. Joint enterprises there: of Slovenes in Italy and Austria and of Italians and Austrians in Slovenia have the longest, almost a quarter of a century long, tradition. The Slovenian Elan Skis are produced in Austria, the Italian Benetton textiles and Austrian Milka chocolates in Slovenia, just to name a few famous brand names.

692 firms in Slovenia have foreign capital: 170 larger foreign investors (more than 200,000 DEM) have invested 936.3 million German marks in the Slovenian economy. Most investments are related to services (banks), to be followed by electronic component producers and, in regard to the transitional character of the area, by trade, traffic and warehouse firms. 190 enterprises in Slovenia are owned completely by foreigners, 109 have joint venture agreements. The decision to invest was made because of the following motives: 1) to be present in the Slovenian (also former Yugoslavian) market (83 per cent), 2) to increase profit (78 per cent), 3) to use the quality of the skilled labour force (73 per cent), and 4) to lower the costs of production (72 per cent).

Most foreign investments are geographically located in cities along the "V" shaped (Jesenice-Ljubljana-Maribor) central manufacturing axis of Slovenia (*Figure 6.5*). Only some are located along the borders, but to the disappointment of many, owned not by investors from the neighbouring countries, but by trans national corporations. Such an example is the Adidas shoe production at Turnisce, just a few miles from the Hungarian border. The general idea of past and present governments of Slovenia, to be supportive of the poly centric and peripheral (industrial) development was a mistake.

Trans-national and socio-geographic problems of border regions

Slovenia is a typical small European transitional country, and as such a border region. It provides a smooth transition from the highly developed areas of the Lombardy in Italy (Northern Adriatic) to areas in a lower stage of development. The traffic on transitional routes is therefore, in times of peace, heavy. In 1988 on Slovenian 119 border crossings 90.5 million travellers were registered. The new, yet not exactly defined border-line with Croatia (546 km) has introduced 26 new border crossings. To two border crossings with Hungary two more were added the since nation-state's independence. Sadly, Slovenian regional planning has constantly neglected border crossings and border regions as spatial elements of particular importance. Border crossings can function as innovation cores in a development process. Border regions can gain by being developed according to the needs of the neighbouring regions in another state. The neglect of border regions was particularly obvious in the eastern portion of the country, along the Hungarian border and Croatian border. In part understandably: the Hungarian was for decades a closed one, the Croatian border was

until recently not experienced as a border. Almost 60 per cent of all cadastral communes along the Croat-Slovene border are demographically threatened, and 87 per cent of cadastral communes along the Hungarian border experience the same fate. Since some of them will be within the zone of the major EU corridor towards Eastern Europe. This could hinder overall development.

Border areas are sensitive areas to develop. The ethnic composition of border areas is most often mixed and therefore the interests of two or more cultures have to be observed within development planning. Often the economic interest of the one, the other or both bordering states is not identical with the interests of the region and nationalities settling it. Slovenia's border regions along the proposed corridor are ethnically heavily mixed. In the western portion, damage was already done after World War II. The Italian population has diminished in size from 21,336 (41 per cent) in 1948 to 2,581 (5.1 per cent) in 1961 and to 2,751 (0.16 per cent) in 1991. The newly established border towards Croatia has interrupted links to the similarly autochthonous population in Istria. The post-World War II allochthonous population, disregarding Slovenes, accounts in the border region of Koper for almost 28 per cent, making this area along the border with EC Italy ethnically heavily mixed and sensitive to single culture development.

The eastern portion of the traffic corridor along the Hungarian border is settled by Slovenes, Hungarians, the Roma people and Croats. The ethnically mixed Prekmurje was within the Hungarian part of the Dual-Monarchy before World War I. Immigrating Slovenians with their higher birth rates have, after 1945, constantly lowered the share (not the absolute numbers!) of the autochthonous Hungarian population in the border region. In 1910 Prekmurje had 14,637 Hungarians (81 per cent), in 1931, 7,407 (39 per cent) and in 1991, 7,637 (8.5 per cent). Croats are, in part, an autochthonous and in part an allochthonous population of the region. The centrally planned industrial development has attracted labour from near and far. In the communes of Lendava and Murska Sobota 5,259 persons are registered as unemployed, placing both on the top ten list of unemployment. The 17.4 per cent Slovenian average is well surpassed. In recent times of recession and the Yugoslavian devolution, the allochthonous Croatian population suffers most. Some are forced to leave Slovenia.

A careful treatment in the planning process is particularly, is recommended in regard to land ownership and use. Examples taken from Austria and Italy, especially in the hinterland of Trieste and Villach, where Slovenes live as a minority, prove that development in the nation-state's or European Community's interest (fast breeder-/highway junction) can hurt local populations and thus impact culture. In both named cases: the Slovenian ethnicity in the neighbouring state! The post - World War II development along the Slovenian Adriatic coast and in the Danubian basin have proven to be partly false in regard to this as well.

Often, developments made in a single country's interest can be, within relatively small Europe, hazardous to all, but in particular to the next door neighbour. Because of the communistic central planning and the past administrative policies of Yugoslavia, including the devolution of the state, Slovenia as a nation-state is at arms with their neighbours because of the following:

- the nuclear power plant at Krško (Austria),
- the thermal power plant of Šoštanj (Austria),
- the nationalised property of the neighbouring state nationals (Italy, Austria),

- the duty free shops on land border-crossings (Italy, Austria),
- the border - line property at different locations (Croatia),
- the social policy in regard to employment (Croatia),
- banking accounts (Croatia).

On the other hand, Slovenia has a couple of unsolved problems in regard to neighbouring states and Europe. Slovenia has hard times promoting the countries economy. To business partners the case of Slovenia is an unsolved mystery, particularly in regard to the succession of Yugoslavian debts. The blooming gambling business on locations along the Italian border works, in part, against the image of the state. And so does the nearby war in Croatia and Bosnia. It lowers investment readiness. On the list of safe investments Slovenia ranks behind Czechia, Hungary, Poland and Slovakia. The growing nationalism, in part understandable – because of the past decade's huge immigration (238,968 foreigners received Slovenian citizenship in 1992, in addition 40,987 "guest workers" work here) and the recent refugee problem (74,432 Muslims are hosted), goes along with the loss of the once prosperous Yugoslavian market and the Slovenian property there. The future of Slovenian firms properties, as well as the future of past private investments in Croatia, among which 20000 second homes must be mentioned, is still unclear. So is the policy of the Italian, Hungarian and Austrian government towards the Slovenian minority in their countries. Unsolved problems can have a hindering effect on the future European integration.

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7 INFLUENCE OF STRUCTURAL CHANGES ON REGIONAL ECONOMIES IN HUNGARY

PÉTER SZALÓ

Macro-economic structural changes

The period between 1990 and 1994 was one of dramatic changes in the Hungarian economy and society. The building process of the legal and institutional structure of a market economy speeded up significantly. There were major changes in the structure of the economy and the labour market as well. Inflation dropped from 23 per cent in 1992 from previous year's 35 per cent. The country's balance of payment improved, the hard currency reserves increased.

Still, this period in the whole process of transition into a market economy led to much more serious disturbances in the economic and social clockwork anyone ever expected. Macro-level indicators of the national economy show a rapid decline of the country's economic performance between the change of regime and this period. Unemployment grew fast, ever larger groups of people had to face outright poverty, and a subsequent threat of social detachment. Crime rose too, and environmental conditions went on worsening.

Various ways of social provision, the costs of disbursing unemployment benefit came as a growing burden on the central budget, while State revenues fell considerably short of the expected levels in a declining economy. In 1992, central budgetary deficit exceeded 7 per cent of the GDP.

Macro-level indicators of the national economy

Last year still saw a further downward of the gross domestic product, a tendency since 1990. The GDP dropped by 4 per cent in 1990, by 12 per cent in 1991 and by 4-6 per cent in 1992. The decline in industrial production – on since 1989 – likewise continued, by 19 per cent in 1991 and by 10 per cent in 1992.

The domestic use of the GDP sank by 7-8 per cent in 1992, and, within that, population consumption fell by 2-3 per cent following a major 5-6 per cent descent in 1991. At the same time, population savings went up by HUF 280 billion (cash, securities, deposits).

Between 1990 and 1992, the number of employees in Hungary fell from 5.5 million to 4.4 million, while registered unemployment increased from 24,000 to 680,000, which translates into the unemployment rate leaping from market is indicated by the fact that employee-aged pensioners and other dependent groups grew in the labour balance of country. (Due to a significant growth of early retirement, used mainly as an excuse to avoid lay-offs, and of other unregistered unemployed people pushed off the labour

market.) Over a million workers, more than 20 per cent of the total employment figure were pushed out of the labour market between 1 January 1990 and 1 January 1993.

The central budget

In the past four years the Hungarian economy has had to be placed on a completely new, growing course exposed to market influence. This could not be done smoothly. Economic restructuring in all post-communist countries was accompanied by a fall in production and an increase in unemployment. The situation was made even more complicated by the unfavourable impact of foreign markets and the loss of foreign markets. In order to stop the decrease in efficiency it was necessary to eliminate activities and businesses with low efficiency even if that made the position of the central budget worse.

The fact that the entire foreign trade had to be converted onto a dollar basis was also reflected in imports becoming more expensive and prices rising. This effect could only partly be moderated or balanced by the domestic economic sector. In the first three years, there was a significant decrease in profitability, while losses increased. At the same time, a whole range of subsidies to economic organisations were discontinued due to increased emphasis on market conditions. Some inevitable forced measures also had to be taken by the State, and thus certain organisations in mining, the steel and chemical industries, Hungarian State Railways, etc. were given individual subsidies.

On the basis of the processes witnessed in the past few years it can be stated that the loss of State income may reach a degree where it cannot even be corrected by severe austerity measures. In these years the unexpectedly fast growth in unemployment and the provision of unemployment benefit placed an extraordinary burden on the central budget. In 1993, the rate of unemployment took a favourable turn, but the unemployment-related expenses of the central budget did not decrease. Active employment policy required an increased contribution by the State and those unemployed who stopped receiving unemployment benefit also had to be supported from State funds. The balance of the budget was worsened by the fact that certain types of State income, especially corporation taxes, fell drastically. This decrease was caused by a reduction in production, an increase in the number of loss-making businesses and in the size of their losses, an unfavourable development in the moral value of tax-paying and, last but not least, the changes in ownership.

The scope of budgetary policy was strongly restricted by the distribution system inherited from the past, the elimination of which requires a longer period. In addition to the reduction of budgetary income, which occurred within a short amount of time, the persistence of the distribution system became the major problem of budgetary policy. The increase in State commitments made it impossible to reduce taxes.

The implementation of a market economy meant a reduction of previous subsidies to economic organisations. The guiding principle in the gradual termination of these subsidies was the elimination of State intervention in market processes. By 1993, the provision of subsidies to economic organisations was considered to have been terminated. Significant subsidies were only maintained in agriculture.

The increase in the budgetary deficit, the changes in the ways of funding this deficit (central bank loans are increasingly replaced by money market instruments such as bonds and Treasury bills) and the accumulated debts inherited from the past are all reflected in the increase in budgetary expenses related to State debts.

Restructuring in foreign markets

Hungarian exports on the market of former COMECON countries, traditional foreign trading partners, dropped by 9.5 per cent in 1989, by 21.4 per cent in 1990, and by 27 per cent in 1991. During the same period, exports to markets of developed market economies grew by 5.6 per cent, 20.6 per cent, and 28 per cent. In 1992, the proportional growth of western markets within total exports went on rising. It is a noteworthy fact that in 1992 eastern exports also went higher by 9 per cent.

Institutional changes in the economy

The number of the business organisations continued upward in 1993. The number of legal entity business organisations increased from 15,200 to 85,600 from 1989 to 1993 after new establishment and cessations were levelled. Alongside the growth of the numbers of economic organisations, the size structure of enterprises transformed as well. Before the change of regime in Hungary, a typical unit of industrial production would be a mammoth company employing several thousands, perhaps several tens of thousands of employees on several sites as required by planned economy. These giant organisations also played a hegemonistic role in agriculture.

However, the greatest change over the last years occurred in small enterprises. While the number of enterprises employing over 300 workers sank slightly, those employing below 20 rose from 5,105 to 50,068.

In the past four years, the number of business organisations increased by over four times and the number of individual entrepreneurs more than doubled.

In the first quarter of 1994, the number of business organisations increased by almost 11,300, thus the number of business organisations in operation at the end of March 1993 exceeded 227,000.

- The annual increase in the number of organisations with legal entity was almost 3,700. The total number registered at the end of March was over 81,800.
- The number of organisations following a non-enterprisal management grew by about 8,000 in the first quarter of 1994. Their number at the end of March was almost 146,000.

The increase in the number of individual entrepreneurs over the first quarter exceeded 16,000, thus the total number at the end of March was over 518,000.

Trends in industrial production

The volume of industrial production, following a stagnation in 1988, decreased continuously between 1989 and 1992, although the size of decrease was different every year. The fall in production became dramatic in 1991. The decrease in industrial production stopped in 1993 and the volume of production in each month – except for January – exceeded that of the same month of the previous year. The level of industrial production in 1993, in spite of the upturn, was equal to about 65 per cent of that in 1989. The loss of market hit large producers the most.

The extensive organisational reconversion of industry, privatisation, the change of markets, as well as the up-to-dateness or underdevelopment of technical standards affected the various areas in different ways and changed the sectoral structure of pro-

duction. In the period 1989 to 1992, the share of mining, engineering and steel industry was reduced, whereas the share of food, chemical and electric energy industry increased. In 1993 each sector except for mining, food industry and the energy sector showed an increase in production. The highest rate of growth was seen in engineering, construction materials, steel industry and metal processing.

The decline in the steel industry and engineering stopped, as their share in industrial production rose from 8 and 14 per cent in 1992 to 9.1 and 15.7 per cent respectively. The share of the construction materials sector also increased from 3 to 3.4 per cent.

The 1993 upturn in industrial production was mainly due to an increase in domestic sales, as domestic sales were almost 4 per cent higher in 1993 than in 1992.

Productivity, following a reduction in 1989 to 1991, exceeded the 1991 level by 2 per cent in 1992 (*Table 7.1*).

Table 7.1

*The main parameters of industrial sectors between 1990–1992**
Previous year=100

Sector	Production			Number of employees			Production per employee		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
Mining	82.9	92.2	80.9	83.2	83.8	78.3	99.6	110.0	103.3
Electric energy	101.3	93.7	88.5	105.0	93.3	93.9	96.5	100.4	94.2
Steel industry	84.7	67.5	73.7	87.7	82.0	82.4	96.6	82.3	89.4
Engineering	82.0	74.5	73.2	95.3	85.5	78.6	86.0	87.1	93.1
Construction materials	97.0	73.4	86.4	98.1	90.8	81.4	98.9	80.8	106.1
Chemical industry	93.2	84.1	86.4	99.5	94.5	90.8	93.7	89.0	95.2
Light industry	88.5	81.9	83.5	93.4	90.2	91.0	94.8	90.8	91.8
Other industry	84.9	80.3	80.7	83.1	78.6	89.1	102.2	102.2	90.6
Food industry	96.7	95.7	87.4	97.8	95.5	97.7	98.9	100.2	89.5
Total	89.9	83.4	82.8	94.5	89.0	86.9	95.0	93.7	95.3

* On the basis of data on companies with more than 50 employees.

Source: Hungarian Statistical Year-book 1992. Budapest, Central Statistical Office.

Regional disparities

Indicators of regional disparities

Regional disparities in Hungary in the 1960s were clearly determined by differences in the level of industrialisation. Disparities occurred in the strongest way between Budapest, the northern industrial axis, which had developed by that time, and the rural areas. In 1960, 42 per cent of those employed in industry worked in Budapest. Therefore regional development also urged on the deconcentration of industry. Extensive industrialisation, however, did not cause an essential change in the structure of disparities, which appeared in a different way later on. Disparities in 1970 were characterised by infrastructural

differences and by the spatial distribution of quality infrastructure and intellectual capital in 1980, eg. 40 per cent of people with higher education were concentrated in Budapest.

In the 1990s, disparities are determined by the parameters of economic restructuring and revitalisation. In 1990, 38.4 per cent of all new businesses – 42.5 per cent of all limited companies and 51.6 per cent of all public limited companies – were set up in Budapest.

The figures around 40 per cent, which are very similar to previous data, indicate that the centre-periphery relationship remained unchanged and only appeared in a new form.

Standard and new disparities in Hungary

While Budapest retained its predominant position, the northern industrial axis has not only lost its significance, but also became a crisis area due to the loss of eastern markets, the termination of industrial subsidies, recession and structural underdevelopment.

The spreading of unemployment, which accompanies the crisis, is a new phenomenon in Hungary. In 1991, significant rates of unemployment only occurred in the three northeaster counties of Hungary, but now the rest of Eastern Hungary also suffers from high unemployment. Regional differences have remained significant and a zone of acute crisis areas has developed. The socio-economic division of the country into a more developed western part and an underdeveloped eastern part is a real threat at the moment.

Although the revitalisation of the economy in the western part of the country mostly takes place in big cities, along the Vienna–Budapest axis and around Lake Balaton, the traditionally underdeveloped regions of Western Hungary are in an undoubtedly more advantageous position than those in the eastern part of the country.

All of the following economic parameters seem to reinforce the critical situation of Eastern Hungary:

- the density of business organisations as of 31st December, 1991,
- the share of joint ventures as of 31st December, 1991,
- gross profit per assets,
- exports per capita,
- exports per net sales,
- taxable or net income per capita,
- gross profit per net sales,
- the estimated per capita value of the GDP,
- the rate of unemployment.

This is also shown in the results of the factor analysis carried out at county level, which indicates the soundness of the economy.

Investigating economic and social processes under a regional angle over the last two years, we will see gradually growing discrepancies among the capital city, the western counties, and the eastern and north-eastern counties of the country. Facts tend to indicate that the former regions managed to respond much faster and more successfully to the challenge of shifting into a market economy than the latter; crisis phenomena accompanying restructuring, such as growing unemployment, poverty are therefore significantly more characteristic features in the eastern and north eastern counties than in areas closer to the western border.

In what follows, we will present regional differences alongside a number of variables particularly important from the point of view of the transition into a market economy.

a) Density of business ventures

While in 1991 there were 47 business units per 1,000 persons in Budapest, and it was still over 40 in the western counties, it was 27 in Borsod county, located in the north-eastern part of the country and dominated by crisis industries. There were 31 enterprises per 1,000 inhabitants in Szabolcs-Szatmár-Bereg county, bordering the Ukraine and dominated by its out-dated agriculture.

b) Inward investment

The only information we have on the geographical distribution of inward investment is the information from the headquarters of the businesses. Inward investment per one employed person is highest in Budapest and in the north-western counties and lowest in the south eastern counties. Two thirds of the foreign investment in limited liability companies and share holding companies goes to Budapest and to Pest county surrounding the capital.

c) Profitability of the business ventures

In areas the density of business ventures is over the average, the businesses will likewise be more profitable. The situation is the gravest in the north eastern counties dominated by crisis industries and the eastern countries with underdevelopment agriculture. Especially critical is the position of the north eastern part of the country, where crisis industry branches are predominant, and every form of enterprise proved loss-making in 1991.

d) Unemployment

The regional characteristics of unemployment are a very accurate measure of the growth of the difference among various regions of the country. Differences among counties increased greatly in 1992-92 in terms of unemployment rates. Budapest and the counties near to the border are in a comparatively favourable position. The most unfavourable is the situation of the north east eastern regions, dominated by industrial crisis regions, and in the eastern counties with obsolete agriculture. The last two years brought major news in the regional characteristics of unemployment. While in early 1991 the major unemployment almost exclusively hit the north eastern counties of the country (Borsod, Szabolcs, Nógrád), it has, since then, gradually covered the other counties of the eastern regions.

The answers of regional development policy to the regional challenge

The disparities and processes described above have determined the objectives and priorities of regional policy. The development of the seven East Hungarian counties and the catching up of the most critical regions of Eastern Hungary have been given priority.

In 1993, Parliament set the main directions of regional policy and the guidelines for regional development support in its decree, according to which:

The Government should seek to reduce disparities between the different parts of the country and different types of regions and reduce the inequality in opportunities. The Government should, above all, diminish the differences in regional economic development between Eastern and Western Hungary, which were increased in the period of transition.

In order to achieve this, the principal objectives of regional policy should be:

- to carry out regional crisis management, the economic reorganisation and development of permanently underdeveloped or declining depression areas;
- to start or accelerate selective infrastructural development focussing on the least developed regions, as part of the concept to reduce general infrastructural underdevelopment in the country;
- in accordance with what has been said above, to reduce differences in existence and operational degrees of infrastructure at settlement level falling within the competence of local municipalities.

In the present period of economic transformation, the Government should concentrate on the reorganisation of regions in the most critical situation and should adjust its regional and local infrastructural development priorities accordingly.

In order to implement the objectives of regional policy, operational instruments must be co-ordinated. The requirement of regional crisis management and regional catching up must be taken into consideration to a higher degree in:

- governmental instruments designed to assist the development of national infrastructural systems,
- industrial and agricultural crisis management, as well as professional policy programmes,
- the active instruments of employment policy, in particular,
- the operation of funds and organisations assisting enterprise and investment promotion/development,
- the compensating mechanisms of municipal regulations,
- the establishment of commercial and non-profit regional development institutions with the participation of the State.

Being one of the instruments of regional development, the primary task of the Regional Development Fund is to assist the renewal of the economic structure, and in connection with this, the improvement of the infrastructural conditions.

Support from the Regional Development Fund should be used to assist the development of regions in the most critical situation and with permanent structural problems.

In order to achieve this,

- developments contributing to the strengthening of the economy and promoting employment, as well as rational land-use and infrastructural improvements connected to economic development in socially and economically underdeveloped regions of the country,
- effective job creation and maintenance assisting economic restructuring in areas with the most serious problems of unemployment,

must be supported.

Extraordinary support must be given to economic and infrastructural development projects in regions, where economic underdevelopment is accompanied by high unemployment.

The purpose of the support is to assist:

- the strengthening of the foundations of the economy, including private economy, and the modernisation of the economy,
- the expansion and maintenance of the number and range of jobs,

- the restructuring of regions with land unsuitable for agriculture, and agricultural land-use,
- the establishment of conditions for socio-economic development, primarily the building of infrastructure concerning several settlements,
- the elaboration and implementation of regional and subregional development programmes,
- the establishment of a regional institutional structure to promote enterprising.

The support must assist the better use local and regional resources, the changing of the general structure, as well as the ownership structure of the economy, with special regard to the introduction and establishment of value-added activities and the improvement of conditions enabling the setting up of small businesses.

Government concept for managing employment crisis situations

By the end of the Government's term in office, the system of regional development instruments had been accomplished: the Government intended to implement the objective of the catching up of underdeveloped regions by creating a system of instruments and elaborating development programmes containing individual decisions.

Since 1992, farmers working in supported areas with unfavourable agricultural resources have received an annual HUF 1.5 billion support from the Regional Development Fund.

The above-mentioned Parliamentary Decree sets the main objectives of regional policy, as well as the criteria for the classification of areas to be supported for a period of three years. The list of areas to be supported is compiled on the basis of these criteria.

Since 1993, municipalities operating in supported areas have been receiving supplementary normative support. In the 1994 budget, HUF 1.7 billion has been allocated to this purpose.

A Supplementary Budget for Directed Support was created in 1993, and provides support for municipalities in supported areas in the form of grants supplementing the municipalities' own resources. In the 1994 budget, HUF 500 million has been allocated to this purpose.

As a part of normative instruments, certain separated State Funds have also made significant contributions to the objectives of regional development.

The Regional Development Fund plays a dominant role within the system of instruments. The resources of the Fund have increased significantly: from HUF 1.5 billion per year in 1991 to HUF 8.4 billion per year in 1994. New financing constructions and objectives were also included in the law and decrees regulating the operation of the Fund.

The Regional Development Fund

The main instrument of regional policy in Hungary is the support provided by Government through the Regional Development Fund (RDF) to regions experiencing structural difficulties. The RDF provides grant assistance on a co-financing basis to the public and the private sector for individual projects, mainly for infrastructure and to assist investment which can be expected to generate jobs, in regions which are suffering structural and development handicaps or are experiencing particularly high levels of unemployment. Areas which qualify under both headings are labelled "regions in crisis". For these

regions a higher rate of assistance applies and there are additional measures as well. In the backward regions the RDF is accessible for projects which:

- promote job creation,
- are intended to promote the re-utilisation of agricultural resources,
- use land currently under agricultural cultivation for non-agricultural enterprises,
- result in the establishment of businesses by farmers under 35 years of age,
- develop village tourism,
- provide services in social and educational investments.

In regions suffering from both high unemployment and underdevelopment assistance is also available to:

- establish new businesses and develop businesses which are less than one year old,
- purchase machinery for public utility works.

Under the current system of operation of the RDF, applications for grants for individual projects are submitted centrally for assessment by the State Development Institute (AFI), a government agency linked to the Ministry of Finance and responsible for the management of all State investment contributions, prior to decision by an Inter-ministerial Committee, chaired by the Ministry of Environment and Regional Policy with the participation of relevant sector ministries (including the Ministries of Agriculture, Industry, Transport and Finance).

In the past three years, in underdeveloped and crisis regions HUF 22.24 billion worth of investment for job creation was implemented with HUF 3.342 billion worth of support from the Regional Development Fund, which resulted in the creation or maintenance of 11,000 jobs. With HUF 9.9 billion worth of support from the Fund, HUF 21.2 billion worth of infrastructural investments, of which piped gas programmes are of great significance, were carried out.

Individual programmes

In addition to the system of instruments, regional development has been supported by individual Government decisions, which can be divided into two groups:

- county development programmes,
- support to certain large-scale projects.

The East Hungarian Catching-up Programme covered seven counties. Short-term and long-term catching up programmes were developed according to the features of the individual counties. The general principles of county programmes were the following: proposed development projects should be supported by the system of instruments in accordance with set development priorities; subregions in the most critical situation must be given priority and separated budgets can be created for each county on the basis of its development objectives and the extent of self-organisation within its area. local committees and regional development councils have been given the opportunity to set priorities and support development objectives.

In addition to the county programmes, Government Decrees were issued for the subregions of Ózd and Komló in order to prevent or handle the crisis. Significant infrastructural programmes were also carried out in the two regions in order to start the restructuring of the local economy.

The other group of individual decisions concerned large-scale projects, which was connected to the new construction of the RDF, ie. development based on enterprising and capital investment. It was impossible to fund phase II of the East Hungarian gas programme from our own resources, since the applicants requested HUF 12 billion support for an investment programme worth HUF 27 billion. On the basis of feasibility studies and having examined the changes in the price of gas, as well as the profitability of the businesses, we considered it possible to fund the programme by reducing the size of support to 25–30 per cent.

Six projects with a budget over HUF 600 million were selected and it was proposed that they should be financed on a business basis, ie. the RDF should contribute with a share in the company's capital rather than giving it a grant. This could be more advantageous in the future, since the investment could be profitable within 3 years and the RDF could gain some income by selling its shares.

The Government qualified regional gas programmes to be of outstanding importance from a regional point of view and approved that the RDF would obtain a capital share in the development companies. The Government, at the same time, undertook a budgetary guarantee for the capital share of loans taken by the companies to the following extent: a guarantee for HUF 3 billion in the case of the HUF 7.5 billion "Zemplén Programme" and a guarantee for HUF 1.2 billion in the case of the HUF 4 billion "Bihar Programme".

The Government also made it possible for the RDF to guarantee a HUF 550 million loan taken by the 41 municipalities of Szabolcs-Szatmár-Bereg county.

It is not our intention to increase the assets of the State by providing share capital, which is only valid for three years. Our intention is to operate the assets assigned to us in an efficient way, and use them to serve new development objectives. In the course of our consultations so far, we have had the agreement of municipalities, since they are interested in the creation of the service and the standard of its provision rather than an increase in their assets. Our objectives, therefore, can be coordinated and, if they are implemented successfully, we shall be able to offer new opportunities to municipalities in the future.

Present approaches in regional development

With the speedy growth of unemployment, with the strengthening and spreading of employment crisis, with the appearance of desperate crisis situations in local employment, considerations of regional employment and economic crises, more particularly *crisis management concentrating on smaller areas* have started to move higher up on Government's priority list of regional development.

Changes in the system of objectives and tools in regional development policy

The main items of regional policy are the following:

- Government's short-term effort and tools should be concentrated on small regions struggling with on-going structural difficulties suffering from recession and not capable of renewal if left to its own devices,

- the emphasis in resolving the problems of crisis areas should lie on the acceleration of the restructuring of the local economy and on the strengthening of local enterprises as an appropriate economic groundwork,
- Government should work simultaneously crisis management and on the support for the innovation of development regions.

Based on the experience of the last two years, Government recommend the following changes in the system of objectives and tools in the regional development policy:

Government plans for the development of the institutional system

Government find that the complex coordination of region-level governmental development and crisis management programmes on a regional and inter-branch level is still an outstanding issue, wherefore:

- a medium-level governmental institution system has to be built up to coordinate regional development related tasks,
- support should be given to bottom-up structures inside the system of local governments,
- the coordinating role of the county-level local governments concerning regional development programmes should be reinforced.

Government moves that the social partners should participate in the establishment of *regional development councils* and that these should operate *regional development agencies*.

Regional development councils

The task of representing local interests, setting priorities and providing guidance to the regional development agencies would be the responsibility of RDCs to be set up at county level. Membership would cover a broad spectrum of interests across the area including representatives of local governments, the social partners, county administration, local banking sector, local Members of Parliament, local enterprise and regional development agencies. RDCs would have the following responsibilities:

- devising regional development strategies and action programmes as well as taking care of the financial financing,
- coordinating the operation of existing organisations,
- ensuring that resources are spent efficiently, effectively, and beside proper coordination,

Regional development agencies

Regional development agencies are to be established to adopt coordinated approach to development in regions and provide a more effective means of delivering financial assistance. The first be in the crisis region of the North-East, in the counties of Borsod and Szabolcs:

- Regional development councils have been set up in the region of Lake Balaton, the Borsod-Abaúj-Zemplén–Heves region, Szabolcs-Szatmár-Bereg county, in the

regions of Lake Velencei and "Lake" Tisza, while the Council for Jász-Nagykunszolnok county is under finalisation. In Békés county, a local committee has been set up to make proposals concerning the use of Governmental support.

- In two counties, pilot regional development councils are being institutionalised in the form of public foundations and inter-communion cooperation is supported with the assistance of the PHARE Regional Development Programme.
- Support has been given to *Subregional Development Associations* in the form of advice, ensurance of representation, financing of programmes and extraordinary assistance in order to promote self-development. As of 1994, two application systems (RDF and PHARE) assist the elaboration and implementation of bottom-up, joint development strategies. Municipalities are represented in regional development councils through the representatives of associations, municipalities of cities with county status and county self-governments.
- Since 1993, associations have spread very quickly: almost the whole of Eastern Hungary is covered by regional development associations and this positive process has begun in other regions, too.

Last but not least, what serves the purposes of economic development within the scope of regional development is the establishment of a national network of regional development companies. The Hungarian Bank for Investment and Development has set up seven regional development companies from privatisation revenues and municipal resources. These companies have a registered capital of HUF 1 to 2 billion and operate in the form of risk capital companies providing the capital usually missing from start-up businesses, in accordance with regional development priorities.

I believe that, in spite of the decline in industrial production, we can contribute to economic growth, as well as the reduction of regional differences through the launched infrastructural development programmes, support systems and structures in compliance with the market.

PART TWO

**EUROPEAN INTEGRATION AND REGIONAL
POLICY**

8 REGIONAL POLICY IN WESTERN AND EASTERN EUROPE: TWO APPROACHES

SERGEY S. ARTOBOLEVSKIY

The main intention of this paper¹ is to find common features and differences in the regional policy of Western and Eastern European countries.² The differences between the two “blocks” inside the framework of regional policy are obvious, however, can we use common terms in our research? Is there any possibility for further convergence? Only after answering these questions can one consider the possibility of using the western experience in regional policy, in Eastern Europe.

Western Europe will be regarded here in its traditional boundaries, while great attention will be paid to the EU. The term “Eastern Europe” covers the earlier “*socialists countries of Europe*” including the former USSR. The author will be, of course, more interested in the events of his own country, Russia.

In the field of regional development and policy the countries of both groups have some common features. In all of them significant spatial disproportions in the economic development, quality of life, and density of infrastructure can be seen. In the West this can be regarded only as a potential threat to the countries’ unity – however this is one of the main obstacles to EU integration (The Regions, 1990). Spatial disproportions plays an important role in the break-up of the Federal People’s Republic of Yugoslavia, the Republic of Czechoslovakia and the USSR, as well as in the Russian or Ukrainian disintegration process, though to less extent.

Both systems meet with the same kinds of problems: old industry, and underdeveloped agglomerations. In some cases their crises corresponds to both – many derelict lands in old industrial areas, and a lack of adequate infrastructure in underdeveloped regions –, in others it differs. At the present time, the rate of unemployment is a good indicator for western development areas, but not for eastern ones (see below). The regional problems of the West and the East can not be solved without state help, since both systems need regional policy.

These common features can be explained by several factors. First of all by the common economic history from the Industrial Revolution up until 1917 (until 1945 for the majority of the Eastern European countries). Even after the indicated dates, there were some common processes in the economic development. The restructuring of industry and employment, and the changing of location factors were very similar (but did not take place at the same time, see later). Scientific progress followed equal courses and changed the location of economy and people.

A very important common feature is the high level of monopolization. Monopoly in the West and the ministries in the East were, and are, synonyms. The monopolization

level was higher in eastern countries, 100 per cent. The monopolies' decision-making in both systems caused similar spatial problems. Monopolies solved the problems of efficiency, but created others in the field of equity.

On the supposition that the East and the West would have followed the same development trajectory, it is obvious that they have come to different stages. Leadership of the West is well-defined and improved greatly after the late 50s. This aspect can be proved by some examples taken in the regional development sphere. The crisis in the old industrial areas in the West emerged in the late 30s and lasted until the 50s, and in the East from the 70–80s (actually we are only now on the way to a post-industrial society). The process of sub-urbanization took place in the West immediately after World War II and problems in the inner areas aggravated in the 70s, while in the East the process of growth of large cities has just finished. Within two or three years we will be able to see how important the question of the inner areas is. If capitalism is going to be our bright future, it is possible to predict some of our coming regional problems and be ready to neutralize them. All Eastern European countries require a regional policy appropriate for new the marketing societies. Up to now, there has been practically no regional policy, as it is understood in the West, and practically in any of the Eastern European countries (*Artobolevskiy–Treivish, 1992*).

In theory, planning in the West was indirect and in the East direct. Speculatively, the latter had more opportunities to influence economy and society but in reality the Western planning was more effective in achieving fixed goals. What can be observed in the regional policy of the East is that the State tried to fulfil the economic and social functions simultaneously: it was the main, and almost the only, producer and organizer of life in society, and facing this dilemma of "equity or efficiency", the State chose the latter. Regional problems were regarded as second-rate ones. Only the State paid attention when they hindered economic development.

In theory the Western State is guarantor of social and political stability, but when the country has severe regional contrasts, this cannot be achieved. The State is responsible for the whole territory and all the population, and even if there are some not very encouraging examples, such as Northern Ireland, or South Italy, the State tries to fulfil its obligations.

It was mentioned above that monopolies create regional problems by themselves. The Western State is more capable of correcting them by its tax-redistribution system and by helping areas which suffered from monopolies' activities. In the East, the State was a conglomeration of monopolies, i.e. ministries, which firstly dealt with their own problems and how production could be increased. No margin was left for general regional problems and every ministry led its own regional policy which gave limited support to areas of their activity. Inside the framework of this policy these areas or urban communities were considered as supplements to factories, enterprises or mines.

It is interesting is that in both systems regional policy emerged during the 20s, having much in common. It was regarded as institutionally independent and provided help to problematic areas. The first aim of the western policy was to take care of the old industrial areas with a high rate of unemployment (*McCrone, 1969*). In USSR – the only eastern country daring the period – regional policy solved political and strategic problems. The help given to underdeveloped regions had the objective to create a progressive manual working class. The proximity of the main economic

centres to potential adversaries was one of the reasons for the State to stimulate the development of the eastern regions (Khorev, 1989).

The late 20s and the early 30s marked a turning point in both systems (a testimony more indicative that the development process is indivisible). The outcome of the economic crisis for the West was the welfare state, including regional policy. Russia cancelled all market-experiments and established the system of State-Monopolistic Socialism, as well as a dictatorship system in political life. From this period onward the ministries, and not the State, dealt with their own regional policy (Artobolevskiy, 1991). During the 30s, the industrialization and collectivization policy impoverished the central agricultural areas of the country, which had been the most prosperous ones. The new and unique types of problematic areas were artificially created, depriving old agricultural areas.

Before World War II, regional policy, as an independent activity of the State, rose only in the most developed countries of Europe, it had originated in Great Britain where the first programmes were advanced at the beginning of the 20s and the Parliament passed the first bill in 1934. The countries of Central Europe (later the socialist countries of Europe) did not reach that level of development before the war, regional policy included. After 1945 they had to follow the socialist path. Even when some of them introduced a centralized regional policy, it was not adequate to the scale of regional problems, neither to the central planned economy (see below).

Actually different methods of development lead to different results. By the end of the 70s and beginning of the 80s regional policy in Western European countries was predominantly a social activity, although working by economic methods. It was part of the welfare state. Maybe it was not the most important activity, but definitely inalienable. In the countries of Eastern Europe the principal aims of regional policy were economic. These aims regarded by the ministries from their own points of view, (i. e. increasing of production), while people were considered as "labour force", and nature as "resources". Vast migrations of labourers stimulated by the ministries in the USSR are now the cause for many national/regional problems such as those in North-east Estonia. Here Russian-speaking emigrants, and their descendants, are obliged to leave their new land, as it has come about in some of central Asian republics, or to stay, but as second-class citizens.

Regional policy methods differ greatly between blocks. In the West they are mainly encouraging (Yuill *et al.*, 1993). Practice shows how limited the efficiency of restrictive methods like are industrial development certificates, or office permits, which were in existence in 60–70s in Great Britain. These kinds of regional policy "tools" have practically disappeared in all western countries at the beginning of the 80s.

In the East all regional aims were included in the official plans concerning the allocation of economy, population and development. In reality the regional divisions of all State plans were the sum of spatial proposals of the various ministries. This plan did not consider the regional socio-economic development, or the decrease of spatial disproportions as independent goals. When plans changed due to the lack of means, these items were the first to be excluded.

From the point of view of the ministries, the regional policy efficiency was very low. Under the circumstances of the "economy of deficit", means and resources allotted to regional policy reduced the budget allocated for the main aim, i.e. production.

The question of estimating regional policy efficiency in the West is under discussion. The proposed methods of estimating shifts in unemployment levels in developed areas, the cost of one new working place, etc. seem inadequate and erroneous. The main achievements of the regional policy, such as the unity of the country and its market, and the prevention of violence and unrest can hardly be expressed in figures if at all. However in both systems, and it is interesting that the efficiency of regional policy was considered low by many politicians and employers. This fact discouraged the creation of a regular regional policy in the East and led to its reform in the West.

In spite of all real differences, a scientific basis for regional policy has been largely developed both in the East and in the West, in general the western studies are more practically oriented. Poland, for example, was ready to establish its regional policy some years ago, not to speak of Hungary (*Gorzalak-Kuklinski*, 1992). The USSR's level of spatial research and monitoring is very high, being constantly promoted by various scientific centres. Many of the plans developed for various territories, the USSR as a whole and specific regions, cities and towns, are scientific documents of high quality and a valuable source of information.

Speaking about regional policy subdivision of Europe into West and East does not mean that inside each division all countries are equal in territorial and financial scales, methods, institutional structures or other items. On the average, the intensity of regional policy in Western Europe increased from the centre to the periphery. The most active regional policy can be found in Italy, Spain, Portugal, Greece, Ireland. The largest underdeveloped area in Western Europe is the Scandinavian North. The same line of intensity in regional policy can be noticed in separate countries, but this *centre-periphery model* holds many exceptions. The factors determining the intensity of regional policy are numerous. The regional socio-economic disproportions are one of them, others are the actuality of national and/or religious dilemmas, organization of the State (unitarian or federal), the financial potential of State, and the ideology of the ruling party, among the most meaningful (*Hansen et al.*, 1990).

The leading countries in the field of regional policy, in the East were Hungary and Yugoslavia, both having it as an institutionally independent State activity. The methods applied in Hungary for "unloading" Budapest, or for stimulating development in some problem areas had much in common with those used in the West. The limited efficiency of this regional policy could be explained by its lack of correlation to the general socio-economic system (and other causes).

Yugoslavia was a country with rather intensive regional policy. The notion that through this, it could achieve the unity of the country was a right one, however in compulsory alliance, the national, historical and political factors were much more important. Regional policy based on wealth redistribution from the richer regions to the poor ones, is absolutely natural – as it is in families adults helping children –, but Slovenia complained of contributing too much and Serbia of receiving too little. All Republics showed more interest in their own regional problems than in those of the country as a whole.

In both systems reforms took place during the 80s, including major changes in regional policy. In the West it was contemplated as a disappearing phenomenon. In the East the term "regional policy" became more and more popular, although not the phenomenon itself, and was used by many politicians.

From the author's point of view, the occurrences in the West during the 80s can be seen as normal improvements in regional policy more appropriate for the new post-industrial system with its fragmentary space. As a result, changes can be observed in territorial and industrial objectives of the regional policy and in the methods used (Albrechts *et al.*, 1989). In general new areas are smaller than the previous ones and the methods are more selective. Obviously, it cannot be denied that the concept of "big state" in the 80s has been modified, but this shift does not have to be overestimated. The State eliminated some methods and approaches of regional policy, but introduced new ones. According to all criteria, programmes of inner area development are part of regional policy. Let's take Great Britain as an example, the inner areas are characterized by poor socio-economic, ecological and infrastructure conditions, in many cases worse than in old industrial regions. For many years investments in their development were scarce. In the late 70s it became clear that only the State could help them. For these new types of development areas, new methods are used that are oriented toward the service sector, development of infrastructure and small enterprises (Yuill *et al.*, 1993). More selective regional policy and changing the "tools" are nothing but the reflection of a modifying reality. Public services and small enterprises become more important in macro-economics and therefore for regional development.

In the East the old regional policy of the ministries is disappearing. In Russia there is a disintegration process going on – similar to what happened before in USSR. Political struggles in Moscow and pressure from the regions lead to the "emancipation" of parts of the country – often without a reasonable bases – and for unknown reasons. Politicians and unfortunately some scientists label this "regional policy". In reality such situations are the big obstacles on the way to the regional policy, which can be exclusively based on the "unequal rights" principle (provided by the State to various territorial units of equal standing). But the situation does not give way to such an approach, and Russia is not the only country in such a conflict. One example is Poland which is an active supporter of local/regional autonomy, which are more numerous in the western part of the country (Hryniewicz, 1993).³

Unfortunately central authorities in Russia do not have in mind the creation of a new regional policy. At the moment the Central Government needs the support of all Republics and regions, and does not intend to separate them. Such problems of regionalisation are the first step for regional policy. Clear legislation and principles in regional policy could put an end to this current period by distributing the billions of roubles among regions according to "subject principle". Thus many regions with the same socio-economic conditions would receive help from the central government (per capita).⁴

The paradox is that Russia is moving towards a market economy and this requires regional policy in order not to increase regional disproportions. But at the same time, the transition period with its severe crisis and political instability has no room for regional policy. The State has a great budget deficit and no money for regional policy on a large scale. Political leaders do not understand the need for regional policy, they consider it in the an additional worry short term. The majority of the population would not support regional policy.

Regional policy can be considered as a product of civilization and the development of society and State. It emerged when the State understood its total responsibility for

the whole country and the entire population, including crisis regions. Regional policy laws on distribution of State help are precise, and excluding – to some extent – corruption and political considerations. As regional help means redistribution of money from rich regions to poor ones, it needs the support of population who must understand the necessity of such a redistribution. The people of the benefited regions have to understand that they are contributing to the unity of the country, market, and political stability. The West was in this situation when regional policy materialized from the 30s to the 50s in separate countries. Also the same situation was in EU in the 70s when common regional policy was created. The population's level of civilization was enough to give support to cross-borders redistribution.

Unfortunately, in the East one could not find the same example. In former USSR all Republics censured those others living at their expense. The same situation exists now in Russia and in the majority of the non-independent States.⁵ The central authorities do not want to lose control of the redistribution of means, i.e. to introduce clear laws and rules. Regional and local authorities do not want to lose power at a time when they are trying to increase their power. The population, enduring crisis, instability, decreasing life style, becomes suspicious to any attempt to take money from their region/area/town. And if one adds that in many cases the regional borders are at the same time the national ones it is easy to imagine the difficulties that the development of regional policy meets in Russia.

What will be the future of regional policy? Definitely regional policy will disappear in western countries. The example of the Thatcher administration in Great Britain, shows that in spite of all attempts to reduced regional policy, the Government in reality has to reorganize it. What were once problem areas were replaced by others, old industrial regions by inner city areas, and some direct automatic methods by indirect and selective ones. Since ideas of the welfare state are beginning to gain restored popularity, it can be expected that a *Renaissance* of regional policy will take place in future, suitable, of course, for the new economic, social and geographical realities (Rodwin–Sazanami, 1993).

In spite of the proclaimed principle of additionality, EU regional policy is in the practice, partially replacing national activity in this field. In 1975 the regional policy of the EC started to expand. Its future schemes will increase Structural Funds (i.e. Regional Policy). *Unification* of space is regarded as the core of integration. In sum, it can be anticipated that there will be a favourable future for regional policy in the West.

Regional policy has better prospects in the most developed Eastern European countries of these, it seems Hungary is the leader, where regional policy takes part in the new market oriented system. In Slovenia the first practical steps can be noticed. In the near future, Poland will implement its regional policy. It is stated that regional policy can only develop in countries which achieved some good results on their way to a market economy. In Russia and Ukraine the prospects are still undefined, both countries have similar obstacles which have already been indicated. Regional policy is certainly imperative in order to avoid further disintegration of the country and new problems at regional/national level. Just now is the time to begin the “*construction*” of the new regional policy.⁶ Even under a severe financial crisis, the first steps in legislating laws and rules could be taken to help the existing distribution and regionalisation of the country.

Would it be possible to use western experience in the field of regional policy in Russia? In the old state monopolistic system there was no room for western approaches concerning regional policy. The first steps in market, based on ideas of "*laissez-faire*" do not introduce regional policy. In Gaidars' programme, under the title "*Regional Policy*", one can find ideas on further devolution of power, and help to the most advanced regions – both ideas could frustrate the development of the regional policy. A more operative approach for a way to the market, seems more reasonable in general. At the same time the State has to clarify its role and responsibilities. If the State indicates its responsibility for the country's unity and life of the society, it will be the first step toward practical regional policy, and once done it, western experience would be valuable.

Many practical tools from western regional policy can be used in Russia – after the necessary changes. But the first thing we have to apply is the "*logic*" of regional policy. The State has responsibility for the whole country and all the population. regional policy signifies more than a moderate payment for the unity of the country, market and society. Encouraging methods are more efficient than restrictive ones.

It seems possible to indicate some general conclusions. For many years regional policy was in the West was mainly a social activity, and in the East economic. In the first case, man was considered as a goal, in the second as an instrument.

In spite of the differences in the State approaches to regional problems, the general natural process of development leads to similar spatial consequences.

Regional problems in western countries are more advanced. This means that their present regional problems will be our own future ones, as its old problems are our current ones. This has to be kept in mind when trying to use western experience.

The last years were transitional ones for regional policy in both West and East. Once more it demonstrates that each period of development needs its own regional policy. It is much better to change the regional policy, in advance but political factors and the economic considerations block the way.

It is now the right time for beginning research on regional policy development in the whole of Europe. Such research can be valuable for both those countries of the West and those of the East.

Notes

- ¹ This paper has been prepared during the author's Fellowship in the Netherlands Institute for Advanced Study in the Humanities and Social Sciences (Wassenaar).
- ² Regional policy includes here all types of state activity, where spatial goals are regarded as the first and the most important ones.
- ³ As it is indicated in the paper written for the International Seminar in Poland, June 1993 by Dr. J. T. Hryniewicz "*Regionalisation of Poland in the Light of Social and Political Conditions*".
- ⁴ The same approach can be seen when analyzing data on redistribution of income-tax. These data is published in official statistics.
- ⁵ On this basis the ideal of "*regional self-accounting*" appears and survives under other names. The proposal is that each region should spend only what it produces. This idea is even more dangerous when used by the nationalist movements.
- ⁶ At the moment there are plans to include regional policy within the activity of the Ministry of Federation. These plans have some logic since in Russia the majority of regional problems cannot be separated from the national ones, the territorial-administrative organization of the country.

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9 HUNGARY AND THE EUROPEAN INTEGRATION

MIKLÓS LOSONCZ

Introduction

At the beginning of the 1990s the crisis of the Eastern European partner countries, as well as the switch to dollar settlement in intra CMEA trade, had a negative impact on the Hungarian economy. On the other hand, the transition to the market economy and parliamentary democracy enhanced the manoeuvring room of Hungarian economic diplomacy. The changes in the political and economic system had an impact on the behavior of the western countries as well which is reflected in the fact that a Europe Agreement, or in other words an Association Agreement, was concluded between the Commission of the European Communities and Hungary. The agreement was signed as of December 16, 1991. The interim agreement regulating trade policy provisions including the establishment of free trade in industrial goods entered into force on March 1, 1992. The European Parliament approved the Agreement on September 16, 1992 and proposed its ratification to the national parliaments of the member countries. The Hungarian Parliament ratified the agreement as of November 17, 1993. The parliaments of the EU member countries completed the process of ratification on October 15, 1993. Now the question is what lies ahead, what are the prospects, including the possibilities and limits of Hungary's integration with the EU?

Hungarian objectives

The European Union constitute a region of strategic importance for Hungary's external economic relations. Apart from political considerations, including common values like the commitment to the traditions of western civilization, democracy, etc. this objective is an economic necessity. Due to economic considerations of certain orders of magnitude, there are no alternative options available for the Hungarian economic diplomacy to develop external economic relations. The reliance of the Hungarian economy on the European Union is clearly indicated by the fact that the relative share of the EU in Hungarian exports increased from 14-15 per cent in the 1960s and 1970s to 20 per cent in 1989, 25 per cent in 1990 and nearly 50 per cent in 1992. The 50 per cent share is the threshold value for economic integration.

The revival and/or the development of economic cooperation with the former socialist countries is definitely not a realistic option in any institutional form. The reason for this is the well-known fact that the Eastern European partner countries in transi-

tion are facing similar economic difficulties in terms of disequilibria, structural tensions, etc. as Hungary. Thus, they lack a sound common basis for closer cooperation.

It is very important to develop relations with the other Visegrád Countries (Poland and the Czech and Slovak Republic) but due to the low level of trade the dynamizing effects of this cooperation is negligible. The three Central European countries account for only 4–5 per cent of Hungarian exports.

The strengthening of the EFTA orientation makes sense only if this trading organization is viable in the long run. For the time being it is not clear what perspectives EFTA has after the accession of some of its member countries to the EC. There are two additional factors which make Hungary's accession unnecessary. First, Hungary's full membership in EFTA would not result in additional economic advantages compared to those provided by the multilateral free trade agreement which was concluded between Hungary and EFTA as an organization on one hand, and the bilateral agreements between Hungary and the individual EFTA member countries on the other one. Second, the accession would disturb Hungary's relations to the EU.

Because of the huge geographical distances the dynamic development of economic relations with the overseas OECD countries (first of all the United States of America and Japan) and the newly industrializing economies which are beyond the economic geographical manoeuvring room of Hungary, these cannot be an adequate priority.

The strategic objective of Hungary is to achieve full membership in the European Communities. For the time being, there is a national consensus on this aim. The consensus is indicated by the fact that during the voting on the parliamentary ratification of the Europe Agreement, there were only two objections and one abstention. The overwhelming majority of the Members of Parliament voted for the Europe Agreement. In the Declaration of the Visegrád Countries published in September 1992, the wish of the four Central European countries for full membership was expressed.

Hungary's integration with the EU and the Europe Agreement

In the Europe Agreement, concluded between Hungary and the EU there is no clear commitment from the part of the Community to Hungary's full membership. However, full membership is not excluded either. According to the preamble, the Communities recognized the Hungarian objective but this objective is not fixed as a common one in the agreement. The Association Agreement could pave the way to full membership, but it should not necessarily lead to it. It is not excluded that under certain conditions Hungary's accession to the EU might take place before completing the steps envisaged by the Association Agreement. If the conditions of entry evolve an Accession Agreement could replace the Association Agreement.

The Association Agreement envisages the establishment of free trade between Hungary and the EU which is a very important element of Hungary's integration with the Community. The achievement of a customs union, which is the second stage of the development of economic integrations defined by integration theorists, is not included in the Agreement. Free trade agreements can be negotiated and concluded without expressing the intention of envisaging the transition to higher stages of economic integration. However, the Association Agreement contains a number of elements like

the harmonization of legal systems, cooperation, etc. which make sense if one takes into account the strategic objectives of Hungary.¹

It can be stated that the Europe Agreement is rather ambivalent. On the one hand, the establishment of free trade is a clearly defined objective. On the other hand, the Agreement provides a framework for developing relations between the two partners. It is up to the partners to which extent they make use of the possibilities available to them under the umbrella of the Agreement.

The Europe Agreement provides favorable conditions for cooperation in terms of security, predictability, and the reduction of burdens. According to rough estimates made by the Ministry of External Economic Relations, the Agreement makes possible the reduction of burdens which were related to tariffs and various non-tariff barriers of the value of some HUF 400 billion (about \$ 4 billion) until the end of 2000. The benefits will be distributed equally between Hungary and the EU.

The interests of the EU

The European Union is interested in integrating Hungary (and other Central and Eastern European countries) with the EU in the long run. A set of criteria of accession was elaborated for the Copenhagen Summit. The criteria include, first, the existence of institutional guarantees for democracy, legality, and the observation of human rights including those of minorities; second, the existence of a functioning market economy; third, the approval of the objectives of the Political, Economic and Monetary Union; fourth, appropriate economic strength to withstand the pressure of competition of the EU producers; fifth, the capability of the applicant countries to fulfill the obligations deriving from full membership; sixth, the capability of the EU to accept and integrate new members.²

The EU did not define a concrete date for enlargement. But it can be perceived from this list of criteria that the Community envisages the accession of new applicants when they are able to meet the requirements of full membership. At the Copenhagen Summit the EU took steps to accelerate the introduction of their unilaterally provided concessions.

As far as Hungary is concerned, it can be assumed that political considerations will not inhibit her accession. The transition to democracy has been completed. There is reason to assume that the EU will focus on the economy, thus it is the economic factors which determine the speed of Hungary's integration with the EU including the achievement and timing of full membership.

A possible scenario for the future

The objective of the Hungarian government is to achieve full membership in the EU. However, at present it is not clear what the Communities shall look like in the distant future, or what kind of community Hungary should integrate with. The European integration could proceed either on the basis of the Treaty of Rome or the Maastricht Treaty. In order to be able to elaborate an appropriate integration strategy, it is necessary to know the objectives of the partners, in the concrete case more precisely what kind of an institution is Hungary supposed to adapt to. Hungary is ready to join the EU in their present forms, but is not afraid of the Maastricht criteria either. (An EU

with a strong European identity would serve the interests of Hungary as well.) It goes without saying that Hungary's joining the EU would be decided and approved by the European Union.

As far as the time requirement of achieving full membership is concerned, it is not exaggerating to assume that Hungary's accession could not take place before 2000. This assumption seems to be realistic for several reasons.

According to the evaluation of the government the first milestone of the scenario is January 1, 1995. The EFTA countries (Austria, Sweden and Finland) applying for membership might enter the EU by that date. Consequently, the accession of Hungary to the EU is not possible before 1995, i. e. the next enlargement.

The second milestone of the schedule is set by the Conference on the reform of the institutional system of the European Union envisaged for 1996. There is no doubt about the fact that before the new wave of enlargement, the institutional system of the Union should be modernized. The present institutional system was originally tailored for the needs of a smaller integration than the one which might evolve containing about 20 countries. This Conference could be convened earlier than 1996. This would have a positive impact on the process.

Hungary and the other Visegrád Countries would consult about the main points of the conference with the EU. It would be a great leap towards cooperation in Europe if the views of the Central European countries would be considered at the conference.

Negotiations on Hungary's accession could begin in 1997. According to empirical evidence the ratification of the Accession Agreement would take about one year. Thus, it might be justified to expect that Hungary could achieve membership as of January 1, 1999.

It should be kept in mind that this is a working hypothesis. This schedule is rather tight. The process could take more time. But it is sure that Hungary's entry is not possible within a shorter time period.

As far as the time schedule is concerned *Jean-Noel Lipkowski*, president of the French National Assembly, said some time ago that the conference on the modernization of the decision making system of the EU could be held earlier, perhaps at the end of 1994 or in 1995. The EU should introduce a more efficient decision making system by taking into consideration the views and proposals of the EFTA countries and the possible central European applicants.³ He raised another interesting issue. He thinks that Hungary could be awarded a special status of "partial member" which precedes full membership but it involves more provisions than the Europe Agreement. He did not give a precise definition of this status but the proposal seems to be reasonable in areas like transportation where interests in developing infrastructure are common. Trade policy could also be involved in the issue. Hungary should receive guarantees that "partial membership" would lead to full membership.

The realization of the strategic objectives of Hungary should be placed in an international setting. Between 1989 and 1991 Hungary was treated together with the other Visegrád Countries by the European Communities. For the time being the six central and eastern European countries (the Visegrád States plus Rumania and Bulgaria) constitute one single group in the perception of the Communities. Furthermore, Hungary is also put into two other categories. First, she is one of the PHARE countries, comprising states lying between the Commonwealth of Independent States and the European

Economic Space. Second, Hungary is also referred to as a country belonging to central and Eastern Europe, comprising the former Soviet bloc plus Yugoslavia and Albania.

There are continuous efforts in the west to promote the regional integration of the Central European countries although it is recognized that because of orders of magnitudes, an evolving CEFTA could not substitute for the EU or the EES. However, if common interests exist, Hungary is not against the coordination of accession strategies with the other Visegrád Countries. The possibility cannot be excluded that under certain conditions the central European countries apply for full membership together.

An important precondition of full membership is an appropriate development of the Hungarian economy. The difference in per capita GDP between the EU and Hungary should be reduced, the economic structure should be modernized. The Europe Agreement could contribute to this process since the requirements of global world economic adjustment are the same as those of the adaptation to the European Single Market.

Regional implications

The collapse of the Eastern European markets as well as the signing of the Europe Agreement definitely have regional implications. The collapse of the eastern markets exerted negative effects, whereas the Europe Agreement gave, and shall give in the future, additional impetus to the development of certain regions. Those regions will benefit most from Hungary's association with the European Communities where the internal conditions of economic growth are the best. For the time being the Hungarian economic development pattern has a dual feature which is also reflected in the regional production structure. The eastern territories of the country which have relied on exports into Eastern Europe are hit by a deep crisis. The economic situation is significantly better in the Hungarian capital and the western regions of the country. These parts of Hungary have specialized on exports to the western countries.

The regional implications of Hungary's association with the European Communities can be measured by different indicators. (As a matter of fact, due to various reasons, no profound research has been made on the regional implications of the Europe Agreement.) Besides the rate of growth of GDP which is a rather unreliable indicator by Hungarian standards, with regard to regional figures, the number of newly established economic organizations, the number of exporting companies and the volume of exports as well as the number of companies with foreign participation and the volume of invested foreign capital can be applied to measure regional impacts. It can be assumed that those regions can step up their exports to the EU, thus make use of the trade concessions provided by the Association Agreement, and, on the other hand, can withstand the growing competition of Community producers which rank high with regard to the indicators mentioned.

The detailed analysis of the regional implications would go beyond the scope of this paper. But as an example it could be mentioned that according to empirical evidence the capital and the Western part of Hungary, particularly the regions connecting Budapest with the Hungarian-Austrian border alongside the Budapest-Vienna axes, were the most attractive regions for direct foreign investments. The other parts of the country, in particular the Northern industrial areas and the Eastern agricultural ones are of marginal importance (*Table 9.1*). Foreign investors were primarily interested in those Hungarian regions which have already reached a higher level of industrialization

by establishing more modern industries like engineering. Budapest is a special case. Not only the major part of Hungarian industry is concentrated there, but it is a rather large source of skilled labor and research and development and technological potential. The capital has the most developed infrastructure in terms of telephone lines, road and railway network, and airport, as well. Companies with foreign participation did not contribute to the restructuring of the old, lagging industrial areas, dominated by traditional heavy industries and to the modernization of traditional agricultural regions. Thus, it is probable that the Europe Agreement will have the most significant positive impact on the western regions.

Table 9.1

*The regional distribution of newly established companies
with foreign participation*

Region	Number of organisation	Registered capital	Of this: in foreign exchange, HUF Million	Equity capital per inhabitant, HUF
Budapest	2,296	40,469.4	27,787.3	13,784
Baranya	133	684.3	434.7	1,041
Bács-Kiskun	193	584.8	413.8	763
Békés	60	474.6	257.3	632
Borsod-Abaúj-Zemplén	79	3,047.3	1,320.9	1,754
Csongrád	109	308.9	203.9	465
Fejér	83	3,047.3	1,320.9	1,754
Győr-Sopron-Moson	176	3,745.9	1,869.0	4,378
Hajdú-Bihar	65	713.1	275.0	500
Heves	41	1,244.3	690.2	2,080
Jász-Nagykún-Szolnok	45	1,729.9	866.3	2,049
Komárom-Esztergom	103	919.8	475.7	1,517
Nógrád	26	591.6	304.7	1,358
Pest	218	3,912.9	1,947.4	2,042
Somogy	74	1,577.9	651.4	1,904
Szabolcs-Szatmár-Bereg	57	207.0	146.1	259
Tolna	42	296.6	97.8	388
Vas	98	3,340.3	2,414.4	8,787
Veszprém	106	526.6	307.7	713
Zala	97	2,055.8	1,065.2	3,505
Total	4,101	70,407.3	42,936.5	4,154

Notes

¹ This section is based on the contribution of *Endre Juhász* (State Secretary in the Ministry of International Economic Relations) at the conference entitled Europe: Our Partner held as of 18–19 October 1993 in Budapest.

- ² Commission of the European Communities: Towards a Closer Association with the Countries of Central and Eastern Europe. Report by the Commission to the European Council, Edinburgh, 11–12 December 1992.
- ³ Világgazdaság, 21 September 1993, p. 1.

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10 EUROPEAN INTEGRATION AND REGIONAL EFFECTS IN NORWAY¹

ARVID HALLÉN-KNUT HALVORSEN

Introduction

What effects will the Internal Market and the economic and political integration in Europe have on regional development in Norway. Will closer integration with the European Community necessarily lead to a further decline of the Norwegian periphery? These are important questions in the Norwegian debate about how to arrange our relationship with Europe.

Norwegian Institute for Urban and Regional Research, all focusing on the European integration. In this short paper we shall present some results from research projects at the gration and the effects upon regional development in Norway.

The analytical model and the structure of the analysis have four components:

- which industries will be affected by more competition in an EEA-agreement,
- what is the regional distribution of the "sensitive" manufacturing industries,
- how can we assess the competitive strengths of sensitive industries,
- discussion of possible regional effects of the economic integration.

But first of all it is necessary to present the national context.

The national context

Norway has always had a small, but open economy, oriented towards exports, and with forms of specialisation aimed at exploiting comparative advantages. For good or bad, the internationalisation process has been a part of the Norwegian economy for centuries, and has had a strong impact on industrial policy and regional development.

Lying in the north-western corner of Europe and bordering on Russia, Finland and Sweden, Norway forms the western part of the Scandinavian Peninsula. To the north is the Barents Sea with some of the richest fishing grounds in the world, to the west the Norwegian Sea and in the south-west the North Sea, with vast petroleum resources, of which only 25 per cent has been extracted so far. Fishing and aquaculture, several maritime activities such as shipping, shipbuilding, manufacturing of marine equipment and ship classification, and of course the petroleum activity, have not only made Norway one of the leading maritime nations in the world, but also one of the richest.

About 60 per cent of the land is mountainous, another 20 per cent is covered by forest and only less than 5 per cent is suitable for agriculture. Exploitation of the heavy rain from the Atlantic Ocean has made Norway one of the major producers of

hydroelectric power in Western Europe. This hydroelectric power constitutes the base for the most important on-shore manufacturing industries, such as the energy-intensive aluminium industry, the various ferrous metals industries, the chemical industry, and the pulp and paper industry.

The regional localisation pattern for the Norwegian manufacturing industries is largely determined by the site of natural resources, power plants, harbours and transport systems and the level of technology at the time of the establishment, which to a large degree was during the first decades of this century and after World War II. This means that the peripheral regions are the home of most of these industries.

The farming areas are scattered throughout the country, and a more market-oriented agricultural sector with fewer subsidies would threaten most marginal areas in the periphery.

Norway is the size of United Kingdom, but has only 4.2 million inhabitants and have consequently only 1/10 of the population density of the EU average. Most people live in the south-east where the capital Oslo is located.

One of the major threats to the long term survival of the Norwegian periphery is not really poverty, nor unemployment, but the lack of young people. This problem is increasing as the fertility rate continues to fall. Consequently, the regional problems in Norway are defined to a large degree according to trends in population migration, and especially the centralisation towards the major cities.

The main objectives of the regional policy in recent decades have been to control the migration process and to maintain the main features of the settlement pattern and the even distribution of income. Regional policy in Norway is a mix of subsidies for the agricultural sector, subsidies for manufacturing and other industries, tax relief and transfers from rich to poor municipalities.

This policy has been partly successful, but the reason behind the low level of migration has in latest years been general problems in the labour market, with unemployment up to 7 per cent in 1992-93. Most economists subscribe the rise in unemployment to the cost-cutting strategy of the business communities preparing for the Internal-Market. It was reported that 13 of Norway's 15 largest companies would reduce staff in the year to come.

Alternatives for Norway's Association with EU

Norway has three alternatives for our institutional association with the EU:

- a continuation of the present Free-trade Agreement,
- the treaty on a European Economic Area (EEA),
- full membership of the EU.

Norway has, as Sweden and Finland, submitted an application for full EU membership, and the EU foreign ministers advocated a time schedule implying that the membership negotiation should be completed early in 1994. If the Norwegian government can reach an agreement with the EU, this agreement will be put on a referendum. At this moment only 25 per cent of the electorate will support Norwegian membership. The "No" side has a very strong position, and an agreement must be rather favourable for Norway to be able to gain support. A national compromise seems to be an EEA Treaty.

Methodology

How will the EEA Treaty change the institutional framework of our industries? Our first analytical problem was to identify the industries which will be affected by the Treaty. Of course, there is no straightforward way of selecting the relevant industries. We have to separate the changes that the EEA Treaty would imply for the business community from the changes that the Norwegian authorities are making independently of the Treaty. Deregulation and market policies have been an important part of Norwegian economic policy for the last decade and international agreements, as a result of the GATT-negotiations, will also demand national policy adjustments.

Industries can be affected *directly* or *indirectly*. In this paper we will focus on the industries that will be directly affected, that is directly exposed to more international competition as a result of the EEA. It was also necessary to determine whether or not the industries would be affected significantly. Only those industries affected by the EEA Treaty, by a removal of a political shelter from competition, and which lack a natural shelter (high transportation cost, cultural barriers), will be *significantly* affected.

Table 10.1

Industry and international competition

Not naturally sheltered	Naturally sheltered
1. Potentially exposed to international competition	2. "Bouly" sheltered Politically sheltered
3. Fully exposed to international competition	4. "Single" sheltered Not politically sheltered

The relevant industries are those which move from 1 to 3, i. e. from a position of being politically sheltered to a position where the EEA Treaty removes this "shelter". Only politically sheltered industries which lack natural shelter are possible candidates for more direct international competition and we are concerned about this subgroup, where the EEA Treaty is concerned (some of the political sheltered industries will remain in a sheltered position). The rest of the economy is either naturally sheltered or is already exposed to international competition.

The sensitive industries and their competitive position

We have built on studies launched by the EU Commission to elucidate the consequences of the plan to create an Internal Market. A study from 1988 identified 40 sensitive sectors which represented 50 per cent of the value added in the manufacturing sector.

A Norwegian study (Golombek, 1991) made it possible to compare the situation in the EFTA countries with that in the EU countries. The sensitivity varied considerably and the country with the smallest percentage of sensitive industries is Norway with

only 20 per cent of the employment in manufacturing associated with sensitive industries.

Why is the rate so low in Norway? The best explanation is found in the long tradition of international openness. Norway has a small, but open economy which is specialised to exploit our comparative advantages to the full. In addition Norway has a rather low share of the labour force in manufacturing, only 15 per cent (compared to 32 in Germany and an EU average of 23 per cent).

The next step was to establish assumptions about the sensitivity of the rest of the economy, which employs 85 per cent of the labour force. The sensitivity of the rest of the industries were identified by studying the EEA Treaty, current Norwegian policies and regulations, and the extent to which the industry in question was naturally sheltered or not.

This investigation showed that 27 per cent of the total employment referred to sensitive sectors. The degree of sensitivity varied between the different main sectors, from 1.3 per cent in public and private services, to 100 per cent in the construction sector.

Regional effects

What regional effects are to be expected within Norway as results of the EEA-Treaty and the Single European Market?

We demonstrated a considerable regional variation in the distribution of sensitive industries. The least sensitive regions are the inland-counties with a high dependence on farming and forestry, because these sectors are not affected by the EEA-treaty. (It is an other matter that they probably will be heavily affected by an EU-membership.)

The northern part of Norway and most of the coastal areas show a high degree of sensitivity, largely owing to their industrial mix in the manufacturing sector and their fisheries.

The highest degree of sensitivity was found in the larger urban areas, in particular the Oslo-area. 36% of the labour force was employed in sensitive industries. The reasons for this is the industrial mix of the region, with marked dependence on wholesale and retail trade, construction and financial services.

When we have identified the sensitive industries, we must evaluate if these industries are in a *weak or strong* competitive position. This can be done for the manufacturing industries. This study of *Golombek* (1991) concluded that Norway was at the bottom of the list as far as the amount of strong industries was concerned. According to *Golombek*, fish processing and shipbuilding were the only two sectors in Norway with strong competitive positions, while the rest of the sensitive manufacturing sectors would have weak competitive positions under the conditions to be expected in the EEA.

What is the regional distribution of the weak and strong sensitive industries? Only shipbuilding and fish processing were judged as strong manufacturing industries. The main areas for these industries are North-Norway and West-Norway. Thus, the sensitive industries in these regions are industries which we judge to be strong in competition. On the other side, the high degree of sensitivity in urban areas stems from industries which are judged to be weak.

Possible long term effects

The regional picture of possible long term effects could then be drawn like this.

A high degree of sensitivity was found in the largest city-regions and along the long coast.

If we distinguish between strong and weak industries (only fish processing and shipbuilding are considered strong), then we must conclude that the strongest industries are located in Western and Northern Norway. If we consider regional distribution of *robustness*² in the sensitive industries in these regions, we find West-Norway in a far better position than North-Norway. The West has a higher share of enterprises with a positive operating result and is less dependant on subsidies than North-Norway. In the long run, it is still uncertain to what extent the potential will be exploited by the different counties in these parts of Norway, and the kinds of competitive relationships that will develop between the counties are also unclear. Besides being rich in resources such as hydropower, petroleum and magnificent natural attractions for the tourist industry, the region has already established several dynamic clusters of industries connected to shipbuilding, fisheries and furniture manufacturing. Such clusters also represent the main elements in the strategies that have been developed in order to meet the challenges of the 1990's.

Our study shows, consequently, that the simple picture of a further decline in the Norwegian Periphery is not supported. An EEA Treaty can be assumed to produce a more differentiated picture as far as regional effects are concerned. However, one must bear in mind that the EEA Treaty does not include the agricultural sector, which is rather important from a regional policy-point of view.

We then have a rather paradoxical result. The periphery regions where we find strong opposition against the EU, will probably gain a net benefit from closer European integration. The net losers, as far as this analysis is concerned, are the urban areas.

Notes

¹ This paper is an abbreviated version of Halvorsen (1993).

² We made a more detailed evaluation of the economic health of the firms in the assumed sensitive sectors introducing the concept of "*robustness*". The Emerson-report from 1988 estimated a possible fall in prices owing to increased competition in the Internal Market in the range of 4.5 per cent- 7.7. per cent. Using the database of our Central Bureau of Statistics we studied to what extent the amount of enterprises with a positive operating result would decrease after we lowered their output prices by 3 per cent and/or reduced their level of subsidies by 3 per cent. We then obtained a picture of how the regional distribution of robust firms varied between the different regions of Norway.

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11 REGIONAL POLICIES IN CHALLENGING TIMES – HISTORICAL AND PRESENT EXAMPLES

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The following analysis is not meant to offer yet another conceptual discussion of regional development paradigms considered to be able (or not) to solve the problems of spatially uneven development. In the present historical moment of specific challenges for spatial development and regional policies it seems to be more interesting to analyse the dialectical relations of the main elements of the on-going spatial and political processes. They can be more conducive to inter-regional or international functional concerns on the one side, or to territorial or regional interests perhaps on the other side.

When talking about regional policies or on-going spatial processes, it is helpful to follow the references to be found (*Lefebvre*, 1974, 1991; *Böckman-Palme*, 1974). Especially in challenging times the state produces spatial, settlement or locational structures – directly by investing in locations and infrastructure, or more indirectly by initiating respective activities through regulation. The latter also includes de-regulation measures, for instance administrative or political decentralisation (a historical example are Stein's reforms to back up – beside other things – the “first industrial revolution” also in German areas; cf. later) or the installation of private or semi-private organisations to carry-out tasks, for instance of the local state. A recent catchword is “public-private partnership”.

Urban regime theory (*Stone et al.*, 1987; *DiGaetano-Klemanski*, 1993) suggests that economic upswings on the one side and economic recessions on the other are accompanied by particular types of government strategies of central or local states (in the latter case called “urban regimes”). “Urban regimes” are defined as more or less informal arrangements in which public bodies and private interests function together in order to be able to make and carry out governing decisions (*Stone*, 1989). In contrast to the regimes of former (upswing-) phases, such as “social-reform regimes” or “growth-management regimes”, there is now a dominance of two sorts of urban regimes focusing on the importance of encouraging business development for a city's economic well-being (*DiGaetano-Klemanski*, 1993): Government-led pro-growth regimes use the public sector (both central and local government), often in partnership with elements in the private sector, to encourage, promote, and subsidise private investment through grants, land sites, and other inducements. “Market-led pro-growth regimes” on the other hand emphasise the reduction or elimination of local government planning power and business regulation, thus facilitating market forces in shaping the pattern of urban development. *Harvey* has described the major change in thinking and practice, at

national level, in the arena of urban and regional policy in the course of the 1980s as a phase of transition from "managerial" to "entrepreneurial" models of spatial governance.

Recent and present developments in regional policy in Germany

The spatial context of the new approaches

Several major forces are affecting the value of geographical space in present times, and thus the form of the urban hierarchy, not only of Germany, but also of the whole of Europe (Hall, 1993a): globalisation and the formation of continental trading blocs, the transformation of Eastern Europe, the shift to the informational economy, and the impact of transport technology.

The first general effect is a greater specialisation between what are still nominally nation states. They now effectively become regions within a wider economic unit. The second effect is the process of globalisation of products and firms (so that identical products may be produced in each of the main trading blocs), which is resulting in a further increase in competitiveness and is underlining the comparative advantages of regions. The globalisation of the automobile industry has been accompanied by shifts to non-traditional production areas. There is a further and more novel sense in which locational advantages are now asserting themselves: "It is that the old division of labour by product, is increasingly supplemented and even supplanted by a new division of labour by process" (Hall, 1993a).

It is not astonishing to find these effects also in the Federal Republic of Germany: Growing international competition and the greater differentiation of the Federal German economic structure in terms of the division of labour, have increased the importance of the regions with large, but favourably structured agglomerations (Strubelt, 1990). Simultaneously, business concentration through the acquisition of firms has led to an increased division of functions between these highly agglomerated regions (location of decision-making, administrative and research units), as well as between these agglomerations and the peripheral rural regions with an unfavourable structure. The regions with large and unfavourably structured agglomerations (early industrialised) have been further affected by continuing factory closures and job losses. The establishment of new economic structures in these areas was greatly hampered by the very much higher costs of structural change (e.g. changing land use, improving ecological conditions, re qualification of human capital). Even between regions with more or less "favourably structured" agglomerations (e.g. between the big cities), the inter-regional division of functions has been increasing. At the same time, the demand for structural change is growing considerably in most of these regions.

Many theorists and practitioners of public administration, and especially of regional planning, agree that in the 1980s the state's ability to solve problems of structural change decreased as a result of growing vulnerability to international interference factors, and increasingly heterogeneous individual problems in different regions. Standardised solutions developed by central authorities were no longer considered to be able to deal adequately with today's heterogeneous development problems.

Given the opinion that spatial planning in its traditional form can exert comparatively little systematic influence on spatial development in times of greater challenges, one of the planner's conclusions was to concentrate planning increasingly on preventing undesirable land use. Spatial "priority functions" are being defined, which override other land uses in the event that they conflict with one another.

Other and *more recent attempts* to overcome new problems of structural change, which are of special interest in this essay, follow the line of approaches towards "*privatisation*" and *decentralisation or regionalisation*. Under conditions of global integration, local and regional fragmentation, sharpened inter-regional and inter-city competition, conflict re-allocation of territorial management activities and multiple deregulation are, regarded most appropriate for the mobilisation of locally specific potentials.

"Deregulation"- i. e. "privatisation" of government organisations

While locational planning was the main basis of spatial policy in former periods, the re-orientation towards the control of urban expansion and the protection of resources also meant, and still means, that regional policy and planning is to focus (again) predominantly on planning for agglomerations: In these areas, conflicts of land utilisation occur most intensively. Even inside the dynamic agglomeration areas, development patterns differ between "losers" and "winners", "centres" and "peripheries". Big cities like Frankfurt, Berlin or Munich, which endeavour to become global cities, are increasingly competing on a European or wider international level. Especially what are known as "super structures", seems to exert a determining influence on competitiveness. The spatial extent of the settlement structures, particularly of these agglomerations, exceeds the second and third suburban ring. The losers of such processes will be the regions situated outside the European and national development axes.

As was said before, the current processes are leading to increased economic and social polarisation, both between and within urban areas, also in those major cities which act as centres of economic and socio-cultural change. Social problems and conflicts are accumulating and intensifying on a local level, (Gornig *et al.*, 1992). The current economic depression and the many effects of German unification multiply the difficulties.¹

The pressure of social problems leads to more urgent demands for action by the communal authorities, which are not only responsible for the regulation, support and modification of social restructuring on a local level, but are also expected to deal with the spatial and social consequences of this process. Simultaneously, however, the gap between the community's need for action and its capacity for control becomes wider, with the result that the local state experiences growing difficulties in fulfilling its task of political integration and safeguarding its legitimation (Krätke-Scholl, 1991). Could this be one of the reasons for the local state to create new semi-autonomous institutions separate from the traditional administrative apparatus?

In the course of intensified inter local competition, cities have moved to other types of government strategies ("urban regimes"), i. e. to the concentrated promotion of their economy and growth which, with the founding of various quasi-governmental public development sponsors, and mixed "public/private partnerships", is based on new political-institutional regulatory forms: the entrepreneurial organisation of certain responsibilities of local government. There has been a change in the nature of financing projects that are

getting more and more expensive. The decreasing income of the cities, increasing costs, and emphasis on profit-making, forced local authorities to turn to the private sector. Public-private partnership the catchword for these projects with shared financing, shared responsibility and shared exploitation.

In German cities, the transformation to private organisational forms for carrying out government responsibilities as well as the so-called privatisation of organisations within the local state is not new. What is new indeed, are its flexible forms. Included here are the entrepreneurially innovative sponsors of development, the local states economic promotion corporations and quasi-governmental instruments for planning and construction, which have "soft" regulatory techniques at their disposal (*Krätke-Scholl*, 1991). With the development of this "entrepreneurial urban politics" (*Mayer*, 1992) and the associated construction of growth coalitions, new actors representing *functional interests* – private sector associations, Chambers of Commerce, local companies, banks, research institutes, and universities are incorporated into bargaining and decision-making processes.

Privatisation is occurring in many sectors as part of the general trend, and it is a term which has acquired many meanings. There is a wealth of evidence supporting the notion that also planning is becoming increasingly privatised (*Dear*, 1989). Privatisation of planning has developed in two ways: through a restructuring of the planning systems of the state and through private-sector initiatives. There also have been nation-wide attempts of privatisation or liberalisation, e.g. in railway policy, proposals for a legal separation of infrastructure responsibilities (which remain with the state) from operating responsibilities (which become purely commercial) as a basis for securing competition in railway operations.

Decentralisation and regionalisation

Decentralisation as a multi-dimensional concept, reveals that geographical as well as hierarchical and functional elements are at issue. The words "decentralisation" and "centralisation" refer to the extent to which regulatory tasks are distributed (*Schäfer*, 1982) – whether from a political administrative perspective, from an economic perspective, or from a social point of view.

If the terms "endogenous regional development", or "endogenous development" are taken to represent goals not yet attained, then implementation requires appropriate decentralisation. Indeed, common to most recent proposals for a strategy of endogenous regional development in Germany were implicit or explicit appeals to governmental institutions to implement the necessary preconditions. In other words, a government-initiated decentralisation was requested (especially by the left camp).

Some devolution of power from central government to regional, provincial, or local authorities has taken place in recent years in several European countries, either specifically in relation to town or regional planning, or as part of a more general decentralisation of power (*Williams*, 1984).

On the other hand, exceeding the intentions of its originators by far, the localities debate has led to a new geographic regionalism "post-modern regionalism" (*Warf*, 1993). Its epistemological implication is a new form of explanation: The positivist form of explanation, in which the unique is held to be the outcome of the general, is rejected. This "post-modern geography" holds that theory must be adapted to the temporal and

geographical specifics of places. Post-modern regionalism explicitly accepts a temporal and geographical boundedness of theory.

Policies to control urban and regional development that take local differences into consideration have been drafted since the early 1980s. Both in terms of central state economic policy and in terms of development projects for individual regions or towns. It was the left/Alternative camp in the beginning which demanded that more weight should be given to the endogenous potential of the regional unit in question.²

The argument for the necessity of allocating responsibility to the regional level is that centralised systems seem to be inefficient. Most representatives of this point of view argue for a decentralisation of various political activities in order to permit the initiation and implementation of a regionally appropriate, and a more holistic development policy, i. e., to permit an increasing mobilisation of local politics to organise and co-ordinate conditions for private capital accumulation and technological modernisation (*Mayer, 1992*). Political and administrative structures above the regional level should not be rendered functionless, however. Rather, they should continue their job of redistributing resources, as well as setting general social, economic, and political parameters.

Today decentralisation and regionalisation of political activities is even a main element of the programme of the Guidelines for Regional Planning (1993) formulated by the Federal Ministry for Regional Planning, Building and Urban Development, which have been adopted unanimously this year by the Conference of Ministers for Regional Planning, a body in which the Federation and the Länder together tackle major regional planning issues. In the new programme the suggestion is made that regional capacities should be put to good use by permitting own initiatives and by allowing existing resources to be utilised. Accordingly, instruments must be developed further, ensuring greater flexibility, and favouring joint approaches within individual regions.

The positive experience gained with regional development concepts must be continued in order to identify the specific merits and potentials of individual regions and to determine how these can be promoted, at the same time eliminating regional bottlenecks and weaknesses (Federal Ministry, 1993).

Also, the insight is documented, that regional initiatives are among the most decisive factors of development in individual areas:

Their close proximity to the population concerned, as well as to the problems in question, establishes the superiority of non-central approaches (Federal Ministry, 1993).

On the Länder level, operationalised policies of this sort already exist, e. g. in North Rhine-Westphalia (*Heinze-Voelzkow, 1991*).

Phenomena of today's regional policy – a traditional pattern in times of challenge?

Phases characterised by political and administrative decentralisation, and/or by scientific concern about such issues are not historically new. Questions are for instance whether decentralisation and “privatisation” are typical forms of regulation or “space production”, by the state in times in which challenges such as economic recessions must be coped with, or whether differences between periods of this sort of (de)regulation or seeming devolution of central power can be found. During the past 200 years, such phases seem to have reoccurred several times in Germany.

Phases of decentralisation in history

Stöhr (1980) postulates periodic wave-like historical phases of decentralisation (as well as phases of centralisation), similar to Kondratieff's (1926) long global periods of economic growth and stagnation or to Schumpeter's (1965) "Business Cycles" and innovation phases). Decentralisation periods are dominated by human interactions on a small scale "from below". The small-scale pattern of social and economic interaction is related, according to *Stöhr* and *Touraine* (1976), to emotional and sensual human interactions. But these phases are followed, as was said, by periods of human interaction on a large scale or interactions "from above". These periods are characterised by functional, abstract, rational, or economic patterns of human interaction. The first type of interaction takes place in small areas, in concretely delimited space. The second type of interaction takes place in abstract and functional spaces, whereby distance is more easily overcome in the latter case. For *Stöhr* (1980) the non-functional periods are the periods in which regional thinking, "regionalism", and decentralisation flourish.

Besides *Kondratieff* and *Stöhr*, other authors have also noted long cyclical phases: e.g. *Berry* (1991), or *Nijkamp* (1987). *Ellwein* (1980) for instance, examining German history, noted phases in administrative behaviour – "functional administration" on the one hand and "object or people-oriented administration" on the other. The latter was concrete, current, experimental and reactive (*Ellwein*, 1980), while the functionally oriented phases were active rather than reactive and focused on administrative practice and on norms and goals. There is a danger that such administrative practice overwhelms its environment (*Ellwein*, 1980). *Schäfer* (1982) discusses such waves in German history in terms of centralisation and decentralisation.

The German case as a historical example: a first glance

The following pages contain a short sketch of the history of state-induced decentralisation in Germany. Such an historical overview will perhaps help us discover which factors can lead a national government to decentralise – but also determine at what cost. A differentiated analysis of these periods can be found for instance in the work of *Schäfer* (1982), and *Huber* (1975).

19th century

1) The *first phase* of decentralisation and regionalism, *Stöhr* argues, parallels the period of economic decline which began about 1800, i. e., a period which followed the phase of expansion usually called the first industrial revolution in Europe (*Stöhr*, 1980). Within a broader context, group solidarity again became a social value after this period of expansion. Fichte's work for instance, at the beginning of this phase, made a plea for maximum resource mobilisation as a step towards welfare equity among social classes. This theory of economic development was based on inter-sectoral support and was a treatise in favour of tariff protection. *List* (1809, 1822) besides his original position in favour of free trade, was also an advocate of tariff protection, which he thought to be necessary in an early state of industrialisation.) Fichte's theory has much in common with the recent principles of regionally endogenous economic development in

countries of the Third World as well as in the contexts of the recent and present “phases of stagnation” in West European countries.

It was a first reform period, connected with the name *Freiherr von Stein*. Essential element” on his administrative reform programme was the build-up of urban self management (the Steinische Städteordnung of 1808). This meant limitation of national control of urban administration, division of power, constitutional parliament, representatives with voting rights – though restricted to the nobility, the landowners, and the bourgeoisie. Besides this reform leading to communal self-government there were other means for an initiation of industrialisation in Germany, till then lagging behind the developments in other European countries: the reform leading to freedom of trade and manufacturing, the reform of property law or measures which ensured the free mobility of the labour force. *Meier* (1881) saw the main point of this reform in the elimination of the discrepancy between the economic and the political power of the bourgeoisie. The goal of the reform was to include the bourgeoisie in the activities of government and administration.

The new condition brought about by decentralisation to local levels – as a means of unburdening the central state – were: private land ownership as a general principle, and private capital and investment available for urban development, the development of powerful interest-groups on the one side; on the other side a weak civic representation and in many cases a still very ambitious state administration.

But with the decentralisation also began a period of hard struggle about the urban land and development use regulation (*Kantzow*, 1983): Who was now legitimised to prepare expansion plans: the state administrators, the city counsellors, the private developers and speculators? Who was going to pay for public infrastructure, e.g. schools, market-squares or roads: the land speculator, the city, or the state?

This phase also included the first (statistical) descriptions of individual regions and local economic potentials. The “Oberamtsbeschreibungen” (descriptive work began in 1922 by the government of Württemberg) e. g. can be seen as forerunners of the “Kreisbeschreibungen” (county descriptions) which accompanied the first phase of regionalism in the 20th century. In today’s terms, these descriptions are general surveys of local potential.

2) The main task of the *second reform period* – with even greater attempts at decentralisation – took place in the second period of recession and depression, starting about the mid 19th century. According to *Wagener* (1969), the main object of these reforms was the strengthening of self-management and the reinforcement of democratic procedures. With the “Kreisordnung” (county order) of 1872, the principle of self-management (cf. Stein’s city order) was applied to non-urban areas as well (*Huber*, 1975). In 1876, the “Zuständigkeitsgesetz” called for decentralising a further group of administrative functions. (In 1891, the “Landgemeindeordnung” formally released rural communities from the guardianship of private estates of the nobility and from the state itself.)

The 19th century also witnessed a broad spectrum of self-administered social welfare activities, activities made necessary because of the negative social effects of industrialisation. The rapid growth of German cities led to the final breakthrough to the typical industrialised town in the 1870s. The typical side effects of capitalistic urban development included not only a steady process of displacement of private

households and economically outdated land uses, but also – intensified by recession and the following times of depression – a severe pauperisation of the households, not only of the non-working population but also of the working population.

At the same time, and this will prove typical for such phases of down-swings of the long economic waves, regionalism, rooting to the soil, and romantic localism became some of the main themes of historical studies, philosophy and the beginning social sciences. *Riehl* for instance excelled in his descriptions of customs and institutions in a limited region. He was at his best in describing the conditions in the German local states of the 17th and 18th century, and in promoting his view of the nation and the “immutable” national spirit as the basic elements in historical development (*Riehl*, 1851).

The answer to the “social question” connected to urban growth was left to *private enterprise*: railway societies, industrial entrepreneurs, housing co-operatives, and welfare associations. But in these darkest times of social conditions, social reform movements began to discover the roots of many problems in the way urban development had proceeded (*Fehl-Rodriguez-Lores*, 1983; *Kantzow*, 1983). At the time of this even greater expansion of decentralisation, welfare associations and others began to use urban development as a means of social reforms.

20th century

One can argue that the period between World War I and World War II was also to some extent a period of object-oriented decentralisation (*Ellwein*, 1980; *Schäfer*, 1982). Starting as a result of World War I itself, communities were officially “ordered” in 1916 to increase their self-management. In 1918 the “Kriegsvereinfachungsgesetz” reduced the administrative responsibilities of the national government toward the local communities even further. This resulted in an increase in local functions as well as an increase in the degree of freedom possessed by local authorities (*Schäfer*, 1982). During the 1920s, the local communities were given responsibility for even more public tasks. Simultaneously, there was a fiscal attempt to balance the income of poorer and richer communities.

This inter-war period was also characterised by a boom in regionalist thinking. This period, characterised by an ideology of national self-sufficiency, was by no means limited to Germany with its national socialist ideology (*Hard*, 1987). This trend, which began during the World War I, continued during the crises of the Weimarer Republic, and it was carried on not only into the prewar years of the Third Reich but also into the World War II and, over the years, into the 60s.

A second glance: Real decentralisation – or a functionally enclosed element?

Our brief sketch of the phases of decentralisation and regionalist thought in the past will now be re-examined for the point of view of the following questions: What was the real context or hidden intention of each set of reforms, and at what price was decentralisation carried out? It is useful to examine past phases of decentralisation in order to discover whether the motivation was derived from a truly regional perspective or from a functional one.

The 19th century – once more

1) Already during the *first phase of decentralisation* (the Stein reforms of the early 1800s) the results could make obvious that decentralisation can be regarded as a two-

edged sword – an ambivalent development, in so far as it seemed to go hand in hand with a more or less hidden but strong centralisation. On the one hand, local urban communities were given more autonomy. On the other hand, the responsibility of the central authorities grew. Though later interpretations of the Stein reforms tended to emphasise the aspect of local self-administration, this was by no means the main objective of Stein himself (*Meier*, 1881; *Schäfer*, 1982, 1992): Rather decentralisation and local self-administration were means to another end – namely, the creation of a strong and unified state. Stein wanted to strengthen both the public spirit and the monarchy, and to strengthen the government in the eyes of all “educated classes”.

Administration by local citizens was designed to decentralise public tasks in the sense of sharing the burden. The function of decentralised structures was to further the integration process of the state as a whole. (The urban and rural working classes were not included in this sharing. This was the reason why the reforms were only implemented in urban areas.) In fact, the urban bourgeoisie was indifferent to Stein's reforms – for them, local administration simply meant more work.

2) In the *second phase* of decentralisation, during the latter half of the 19th century the Stein reforms were simply carried further and/or to other territorial administrative levels – provinces, district counties. The source of this second phase was the ongoing differentiation between state and society (*Schäfer*, 1982). The work of *Marx* and like-minded theorists was about to have its effects as a societal invention.

At first, the working class itself had a certain amount of local control. The result of social differentiation and the emergence of an extensive hierarchy of government and administrative organisations was the need to co-ordinate and integrate the autonomously decentralised parts of the system. Despite their deployment of tasks “downward” in the administrative hierarchy, the central state tried to keep the operations of local decision making under its control.³ According to *Schäfer*, *Bismarck's* reforms were also an attempt to integrate the working class and the “private” welfare urban planning associations into the state or monarchy, just as the *Stein* reforms had been an attempt to integrate the bourgeoisie into the monarchy (*Schäfer*, 1982).

20th century

In the *third phase* of decentralisation – from the World War I right on through the World War II, the administrative system was further differentiated. Local responsibilities grew again, but in contrast to developments in the 19th century, it became clear that self-management and co-operative forms of local administration were not the object of the reforms (*Schäfer*, 1982). Rather, territoriality and solidarity were abandoned as goals and self-management was turned into a technical question of administrative organisation (*Forsthoff*, 1966; *Schäfer*, 1982). Localities gained more jobs and responsibilities but not more freedom to deal with the new tasks (*Schäfer*, 1982)⁴. (Rather, the lack of authority in this period to levy local taxes, the reduction of fiscal assistance from above, and the increased number of tasks led to a financial and political collapse of local communities. This development was carried to its extreme during the Nazi regime's “Gleichschaltung”.)

The more general result was that self-administration lost its territorial orientation and became a general principle of organisation for the benefit of the central state.

The trend toward regionalism or idiographic geography for example, can also be interpreted in terms of that specific form of centralized decentralisation, and with specific tasks in this context⁵ (Hard, 1972). It is also argued that the trend towards a geography of individual regions, toward a special regionalism in geography, not only in Germany, but also in many other countries, was an ideological expression of right-wing nationalism. It was evident in many countries – despite the fact that it reached the height of its vehemence in Nazi Germany. The idiographic study of regional landscapes established in Germany during the period of the World War I and the revolution (1914–1919) was implemented as a task of central administration during the World War II (1941) (Meynen, 1947, 1955). This was the time in which the local districts (counties) were canvassed and described in terms of their economic potential.

Parallel and in seeming contrast to that more or less fictitious decentralisation, and the more or less “false” regionalism there was the beginning of a functional reorganisation of the national territory and settlement system: German regional planning officially began in 1935 with the first Office for Spatial Planning (Reichsstelle für Raumordnung). Its tasks encompassed the centralisation of all planning and research activities. At that time, planning was legally regulated by the domicile settlement law (Wohnsiedlungsgesetz 1933), the settlement organisation law (Siedlungsordnungsgesetz 1934) and the Reich’s nature protection law (Reichsnaturschutzgesetz 1935). Regional research and spatial planning are seen to be confronted with “mighty tasks” (Nazi-rhetoric) at that time: The German Raum formation had to be adapted to new economic, logistical, and social-political objectives. Changes in the composition of towns on a huge scale, the dispersal of major cities and industrial centres, the relocation of factories and other transformations had to be tackled. Examples of similar changes were the building of the Reichsautobahn (motor way), and the emergence of the central German industrial region in the north of the Harz mountains (Rössler, 1989).

In 1936 the Reich Working Party for Spatial Research (Reichsarbeitsgemeinschaft für Raumforschung) was founded and had branches at all universities. The German “Altreich” (that is, Germany in 1937) was divided into twenty-two different planning areas, and scientists, predominantly geographers, made studies of various subjects including area inventories (maps), the development of transportation and communication, comparisons of population densities, and the intensity of agricultural and industrial production.

Apart from research associations at the universities in 1937, special study groups were also founded, one of which was the Arbeitskreis Zentrale Orte (Study Group on Central Places). Other groups studied subjects such as mineral resources, labour service and mobilisation, and distressed areas. The foundation for the Study Group on Central Places was laid by Walter Christaller in his famous PhD dissertation “Central Places in Southern Germany: An Economic-Geographical Investigation into the Regularities of the Distribution and Development of Settlements with Urban Functions”, (Christaller, 1933). Essentially he argued that there is a hierarchically structured network of settlements, and a hierarchically structured order to regional economies. His model was dependent upon economic, administrative, and political circumstances.

The proceedings of the Study Group on Central Places revealed that the theory was recognised as a model for the spatial reorganisation of Germany⁶ (Rössler, 1989). With

this model, it was thought to be possible to plan the distribution of goods and services in an economic manner. Efficiency and economic viability of the spatial order were essential for building a “rational society”, especially in the pre-war period, when industry was being brought into line for rearmament⁷.

The upgrading of the cities of the West German settlement system after World War II has its basis in the 1930s. In contradiction to the false emotional regionalism and the (pseudo) decentralisation to communal levels, the 1930s were the time in which space-related functional thinking and planning began as well, at the very time of the beginning implementation of “superstructures” (e.g. the “Autobahnen”) in space, of a restructuring of the spatial economy, as well as of a “rational”, economically oriented reorganisation of the national settlement system.

In the 1930s and beneath the surface of “decentralisation” and “regionalism”, the instrumental conditions for the upswing of one of the long economic waves taking place world-wide after World War II, were produced; at least the space-related preconditions, i. e. for a rational restructuring of the widely pre-modern spatial structures. This was not only the fact in Nazi-Germany (and here in the beginning not only as a side effect of spatial restructuring only oriented at re-militarisation and the expansion of the territory).

Similar space-related activities in other European countries

In the second half of the 1930s the preparations for basic planning legalisation or planning institutions had been started in several European countries.⁸ Several of them were implemented between 1940 and 1942⁹ I don't share *Williams* (1984) preference for seeing this planning legislation or these agencies only as instruments for an “orderly reconstruction” after the war, because the preparations for the creation of effective systems of town and country planning had begun before 1939. They were real innovations in a Schumpeterian sense, i.e., founded and implemented shortly before the upheaval of a long economic cycle – shortly after the big world-wide economic depression.

Summary

All in all, and through all three phases of decentralisation, the reforms have not – contrary to claims made for them both before and after the fact – resulted in a territorially based process of real, more or less autonomous self-administration. Moreover, the results of such reforms really were the creation of a misled consciousness – the idea that decentralisation of administration had been coupled with a devolution of power.

As a result of analysing the German case and with view to the pre-war developments in other European countries, one can resume the following: Apparent tendencies of decentralisation and regionalism in challenging times have been nothing else than the forerunners of – or a new upswing for – a functionally oriented, restructuring of national territories labelled, “rational” – as a basis for a further step in the economically oriented instrumentalisation of the spatial organisation of territories (e.g. with respect to shortening of transportation times for persons and goods).

A second glance on the present phenomena

From the described historical perspective, a really democratic, territorially-oriented concept of local or regional development would have only temporary chances of success – if at all. In Germany, history shows that attempts at non-central control have always been re-integrated or co-opted back into the fold.

Decentralisation co-opted back into the fold?

During the last two decades citizen's initiatives, indicating an increasing unwillingness to accept administrative and bureaucratic decisions, were so common that one could speak of a new social movement in the Federal Republic of Germany. From our historical perspective, one could claim that this was just the beginning of yet another phase of co-operation or reintegration, an attempt to capture decentralised autonomy and turn it into decentralised implementation of centrally determined tasks.

The strategy of endogenous development in its purer sense, as sponsored by the left/alternative camp has had little chance. Even the chances of an "adapted" regional development policy (Beirat für Raumordnung, 1984), i. e., of a watered down concept of "endogenous development" are doubtful. Despite the claims of reformers (within the central state), even these new organisational measures have maintained strongly centralized power. The final decisions on program structuring and implementation at the regional level are still made in the government administrations of the Länder (Heinze-Voelzkow, 1991). What in fact was decentralised, was the public task to regulate processes and structures of conflicts. Through the internationalisation of business hierarchies and networks the European regions are becoming more and more integrated on a functional basis in a trans national corporate division of labour. Implicit in this is the narrowing of locally led development capability, as power and control become centralized in a diminishing number of headquarter locations of the most powerful firms (Amin-Malmberg, 1992).

In the present recession and in the context of the territorial unification of Germany, peripheral parts of the state's territory as well as an attempt to cover all regions in regional policy on the part of the central state seem to have got out of sight – partly still before the reunification of Germany. In terms of regional policy, the establishment of equal standards of living in all parts of the Federal Republic of Germany had become an obsolete issue even before that historical event. Kooistra (1991) with view to the changes in Germany: "Planning and policy are now more than ever stressing the role of urban economy... Making profit is no longer a dirty job, it is changing into the major policy aim. Accordingly planning is becoming more profit than welfare oriented. In connection with this trend, local conditions are more often considered from the perspective to attract new economic development... Urban policies aim at urban regeneration and related to this the strategies of city promotion, using city marketing and image improvement".

Decentralisation – a prerequisite for aggravating national settlement hierarchies?

With few exceptions, regional problems now are being discussed as problems of urban agglomerations, especially of the biggest and most prosperous ones, and not as

problems of the periphery. The most striking example for this are the newly published Federal "Guidelines for Regional Planning" (1993).

One of the reasons for this tendency is that in large urbanised areas social problems are most evident. It is in the cities that new forms of political conflict and organised separatism – linked to the problems of alienation and political legitimisation – are most acute. Crises of the cities can only be ignored at the peril of increasing social instability in the national system as a whole. Moreover, the problems of the central core regions are perceived as "national" problems, while the problems of the periphery are perceived as "regional" problems. Such an approach meets what is thought of by many planners as central necessities, i. e., looked upon from a standpoint in the realm of spatial functionalism.

Nevertheless, *Hall* (1993b) identified the recession we now are experiencing as "a blip on the screen of history, albeit intensified by momentous world changes like the end of the Cold War and the economic transformation of Eastern Europe". He compared it with the years of recession after the end of the Napoleonic War and the Treaty of Vienna, when the technical and infrastructural inventions and experiments were made which guaranteed the transformation from the agrarian to the industrial age.

And in the same manner, and this is no mere coincidence, in most of the West European countries, the job of the moment is seen in laying the necessary infrastructural foundations, i.e. inventing, planning and producing the respective spatial structures for the next private reconstruction boom. This means investing in what *Hall* (1993b) calls "informational infrastructure". This innovative infrastructure, as a precondition for a coming economic upswing, shows another scale than the former one (of motor ways, of big cities as major central places, and of IC-trains): That means investments into the upgrading of certain regional airports to make them major international hubs, the development of new connecting lines for the European high-speed network, the provision of "state-of-the-art telecommunication infrastructure" in the core of these nodes of the high-speed network. This high-speed train system will have effects on the future of cities as great as those of motor ways of the 1960s or the original railways of the mid 19th century.

The scale of the shift from the industrial to the informational mode of development will, as *Hall* expects, trigger an urban transformation and disturbances of the national settlement system "equally momentous to the first industrial revolution. Telecommunications have evolved from a relatively simple in-house utility through being a co-ordinated business resource, to a strategic weapon in the competitive arsenal of multinational corporations. In Germany, restrictions imposed by "outmoded telecommunications policies and regulations" (*Robinson*, 1991) are cleared away¹⁰ by wide moves to liberalise the communication environment, and the legal regimes governing information technology and tradability.

The quite recent Federal Guidelines for Regional Planning (1993) meet these apparent "requirements" of spatial and economic restructuring in most respects: Among all transport infrastructures the greatest importance is given to the high-speed train system, and "the wider city region..., i. e. its agglomeration, including their hinterlands" are looked upon as the most important element of the national spatial system:

"(They) are engines of economic growth for spatial development in the entire country. Yet at the same time their efficiency is being increasingly impaired by great

strains and stresses, Germany's merits as a location with favourable spatial pre-conditions might be seriously endangered in international competition... This is why top priority is given in regional planning to the objective of safeguarding and further developing these structures" (Federal Ministry, 1993).

But the concentration of all highest level functions once more in only one single metropolis has not been the post-war "German model" till now (*Strubelt*, 1990), and there is no danger that this will become a theme in the future. But at the same time upgrading of a selected number of big towns implies a much cloudier prospect for the future for most of the other cities not inside the West European "growth belts". This is particularly true for the prospects of those widely spread public-private mega-developments, which are still considered to be major urban innovations also in those geographically less "central" towns and regions. The functional status and development prospects of more and more localities in Europe and in Germany are becoming tied to their role in the international geography of the widening scope of trans national corporations rather than to their status as self-contained and independent economies. Increasingly, the metaphor of "dependent development" has to be applied to a wider range of localities in Europe as they are drawn into internationally integrated production systems (*Amin-Malmberg*, 1992). The new local "boosterism", i. e., the new strategy to turn localities into self-promoting islands of entrepreneurship, however, faces some major difficulties if it is to become a universally viable strategy for local or regional economic regeneration (*Amin-Malmberg*, 1992). The risk of failure is even higher once places are forced to copy each other, "as the barrel of new ideas becomes depleted". In this model, with a multitude of agencies, "bound together by nothing more than the profit-seeking adventurism of the private sector" (*Amin-Malmberg*, 1992), failure is highly likely.

The recurrence of "regional identity" as a political means

And the recurrence, of another recipe, in times of economic recession at this very moment must not be taken as a mere surprise: It is the recurrence of a recipe which traditionally seems to have been offered to the localities and to the regions belonging to the "losers". Representatives of the central state now are asking for the production of "regional identity" (or identification with respective regions). These politicians mean a "regional identity" that "can reduce the comparability of the different regions and thus make it easier to accept greater inequalities" (*Biedenkopf*, 1992).

Eastern countries of Germany

With respect to the necessary spatial and economic re-integration of East-Central Europe the basic problem is to be seen in an simultaneousness of non-simultaneous historical phenomena. Hall describes this with the following example: "As western Europe enters the era of the high-speed train, it is going to take massive efforts to move its East-Central-European neighbours into the age of the motor way" (1993). The most severe challenges for regional planning in a European context are the efforts to synchronise these "historically unlike" necessities.

Notes

- ¹ Problems and conflicts will vary considerably from region to region (*Gornig et al.*, 1992): The various situations form a continuum between two poles: on the one hand dynamic west German growth centres, on the other declining east German cities. West German growth centres will no longer have housing available to average earners in central areas; various sub-groups of the population will be excluded from certain areas of the city. Their economic structures are oriented one-sidedly towards efficient firms active on an international scale; small-scale production will be all but completely driven out of city-centre locations. The volume of transport will rise considerably, developing into a problem for which, at present, no solution is in sight. The decisive development factors in the declining east German city are very different. The lack of investment, particularly in the industrial sector, mean not only a concentration of long-term unemployment in, and permanent migration – particularly by young people – out of certain metropolitan areas, and the consequent decay of housing in those areas. The city landscape is also dominated by boarded-up production. The city lacks adequate fiscal revenue to improve the local infrastructure. At the centre of the problem constellation is the decay of the city itself, spiralling outwards in a vicious circle of worsening problems. The development paths described show that the prospects for east and west German metropolitan areas are far from meeting the aim of socially just, ecologically acceptable and economically stable development.
- ² These concepts are based on political and/or administrative decentralisation and they emphasised endogenous development, i.e., the development of endogenous regional potential. In opposition to market oriented doctrines, peripheral areas should be given a certain amount of independence as far as economy and decision-making are concerned. A tariff policy towards the outside and an intensification of intra-regional exchange are seen as the two legs of a new policy for economic development. At the same time, a higher level of socio-cultural autonomy is demanded, not in the least to further regional consciousness and a process of regional identity and action – both of which are thought to be necessary if peripheral apathy and out-migration are to be stopped.
- ³ The self-help organisation of social welfare reforms became local (*Schäfer*, 1982). The aim to protect workers and salaried employees against illness, accidents, invalidity, and other emergencies, was fed by a boom in Christian and socialist social theories which preceded this phase and established the necessity of class solidarity in the public consciousness. There was a point, however, at which the impoverishment of the working class became so great that both the self help welfare organisations and local governments were no longer able to cope with misery. The rehabilitation of the working class as a whole and their social integration remained unsolved problems. Under the auspices of Bismarck's social laws, a new administrative division of labour was initiated.
- ⁴ This demonstrates why *Ellwein* (1980) argues so emphatically that a clear distinction must be made between decentralisation understood either as a division of labour between local units and a controlling centre or as local administration coupled with local political freedom.
- ⁵ Hard sees this academic trend as an ideological one – as part of a popular conservatism: “When people are seen directly in terms of their local landscape, social and political ideas and structures can be interpreted as “natural”, as a piece of nature herself, and thus as permanent fate, a fate which one cannot overcome without severe punishment” (1972). Even after World War II *Otremba* – a well-known German geographer – could say: “The principle of order should and can be found in the landscape – a principle which can lead us out of the present chaos” (*Otremba*, 1949).
- ⁶ Christaller's thesis was published in Jena in 1933. There is a persistent myth and misconception that the importance of this work was only recognised in the 1950s and 1960s. *Lichtenberger* (1978) e.g. pointed out the enormous time lag between the publication of

Christaller's thesis and the earliest attempts by empirical social scientists to make appropriate quantitative studies (1963). It is true that only a few geographers noticed Christaller's thesis in the 1930s, but in planning and research organisations it was soon discussed as a new planning theory.

- ⁷ Christaller's theory was not positively received by all scientists. Some scholars rejected his theory on the grounds that it was "too theoretical", and they called for a more "organic" model which would correspond with the "organically" conceived National Socialist "ethnic community". A case in point is the debate between Christaller and the economist Friedrich Bülow about the problems National Socialists had with the concept of central place theory. The planning of the eastern occupied areas gave rise to the debate (Roessler, 1989). Christaller conceptualised a hierarchy of settlements on a theoretical level. (His model assumed a uniformly populated plain, the proportional distribution of services, and a hexagonal market area.) Bülow presumed a hierarchy of settlements as a praxis theory and had included the creation of the Nazi Volk-community (Volksgemeinschaft) as part of his concept (Christaller, 1941, 1942).
- ⁸ In Great Britain, the Town and Country Planning Act (1932) was the first planning legislation to include the word "country". It illustrated the concern that was being felt at the time about failure adequately to protect the British countryside from unplanned and sporadic development. Schemes could now be prepared by authorities of any size in urban or rural situations (Fryer, 1993). For the protection of the countryside, the Restriction of Ribbon Development Act (1935), and the Green Belt (London and Home Counties) Act (1938) were further palliatives. In 1943, a separate Ministry of Town and Country Planning was set up.
- ⁹ One may cite (with Witsen, 1991) the Netherlands, where a National Plan was established in 1940 and the National Planning Agency in 1941, or (with Williams, 1984) Italy, where the law of 1942 is still the basic planning legislation. Belgium can be noted as a further case, whose government-in-exile 1940 in London resolved to enact town and country planning legislation.
- ¹⁰ For private corporations, which were to respond in a timely manner to the new opportunities and challenges of a globalised market, government agencies (also in Germany) responsible for telecommunications policies "appeared unable to recognise the full importance and wide implications of the globalisation process and the impacts of increasing interdependence among countries" (Robinson, 1991).

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12 REGIONAL POLICYMAKING IN WESTERN EUROPE: THE COMPONENTS OF REGIONAL INCENTIVE DESIGN

KEVIN ALLEN-JOHN BACHTLER-DOUGLAS YUILL

Introduction

Regional policy has had a long and chequered history in Western Europe.

From its early origins – the Special Areas designated in the United Kingdom in 1934 in response to extremely high unemployment – almost sixty years have elapsed. Over such a lengthy timescale, it goes without saying, that the priority attached to regional policy has varied and that the policy itself has taken on a number of different forms. An early emphasis, for instance, was on the provision of physical infrastructure in the problem regions, not only transport infrastructure (roads, railways, ports) but also the development of industrial sites and factories. Later, the relocation of public sector jobs became an important theme, combined with efforts to redirect private sector job growth from overheated and congested regions (including Paris, London and the Randstad in the Netherlands). More recent developments have seen a particular stress laid on establishing a supportive business environment in the problem regions, focusing on softer aspects of policy like appropriate consultancy assistance, education and training (*Allen, 1979; Yuill-Allen-Hull, 1980; Vanhove-Klaassen, 1980; Allen-Bachtler-Yuill, 1988*).

One of the key continuing components of regional policy has been regional incentive policy – the policy of national governments providing financial support to firms in designated problem regions to encourage them to relocate to and/or develop in such areas. Regional incentives are currently found in nearly all countries in Western Europe and are a particularly important policy instrument in the Objective 1 regions of the Community and in the Nordic countries.

Given this resilience on the part of regional policy in general and regional incentive policy in particular, it is interesting to consider how regional incentives are designed and operated in Western Europe. For those countries in Central and Eastern Europe and in the former USSR which are currently discussing regional policy concepts and strategies, designating areas and developing appropriate policy responses to their regional problems, the time seems particularly apt to review the main components of regional incentive policy from a policymaker perspective in the light of west European experience in this field.

Area designation

A central consideration in the design of regional incentive policies concerns the designation of those problem regions where incentive support is to be made available.

In Western Europe in general – and in the Community countries in particular – there is a significant range of experience when it comes to problem region designation. At the one extreme, countries like Germany and Denmark undertake area redesignation exercises on a regular basis (roughly every four years) and have detailed and explicit designation systems according to which labour market areas are ranked to reflect the severity of the problem and designation then follows on the basis of the ranking achieved. At the other end of the spectrum are countries like Greece and Spain. Here, the redrawing of problem region boundaries is a much less frequent occurrence, and the area designation systems employed tend to be much less explicit.

In reviewing the experience of the Community countries in respect to area designation, it is useful to consider separately the different stages of the area designation process: the identification of relevant “building blocks” on which the area designation methodology can be based; the choice of appropriate problem region indicators; the combination of these indicators to form a common view of the severity of the regional problem in different parts of the country; the decision on the appropriate extent of designated problem region coverage and the role of the European Commission in respect to this decision; and finally, consideration of whether problem region coverage should be uniform or should distinguish between different grades (or tiers) of problem region.

Spatial units

The first stage of area designation concerns the spatial units that might best be used in the designation exercise. In most Community countries, the units utilised are, not surprisingly, relevant administrative units, since most statistics are gathered in respect to such units. Thus, in France the emphasis is on départements, in Luxembourg it is on cantons and in Portugal on municipalities. By contrast, in other countries an effort is made to consider units which are more meaningful from an economic perspective. For instance, in Denmark the focus is on 59 regional planning groupings, in Germany it is on 166 labour market regions, in the Netherlands on 40 COROP regions (functional divisions of the country based on labour market criteria) and in Britain on 123 travel-to-work areas (which are approximations to self-contained labour markets).

Whatever the unit chosen, it is obviously essential that appropriate statistical information be available at that level in respect to the selected problem region indicators. Reflecting this point, it is of note that the EU Competition Policy Directorate – which is responsible for approving the outcome of area designation exercises at the Member State level – utilises relevant administrative units across the Community, albeit at two different levels: at the so-called NUTS Level II (equivalent to the Spanish Autonomous Communities or the Italian regions) for designation as a so-called “least-favoured area” under Article 92 3(a) of the EEC Treaty; and NUTS Level III (equivalent to the French départements or English counties) for designation as a “development area” under Article 92 3(c). (The Competition Policy Directorate’s approach to area designation is addressed later in this section.)

Designation indicators

The second aspect of the area designation procedure concerns the indicators used to determine the presence of a regional problem. Across the Community countries, the

large number of indicators utilised can be grouped together into six broad categories: unemployment, income per capita, industrial structure, economic prospects, demographic indicators and location criteria.

In a wide range of countries, and particularly those in the north of the Community, it is evident that rates of unemployment are viewed as a prime indicator of the existence of a regional problem. Belgium, Denmark, France, Germany, the Netherlands and the UK all place considerable stress of unemployment in their area designation systems. Unemployment rates are also one of two key criteria (the other is income per head) adopted by the EU Competition Policy Directorate in its consideration of regional problems. To qualify as a "development area" for EU competition policy purposes, regions must normally have unemployment rates at least 10 percent above the national average (*Wishlade*, 1992, 1993a, 1993b). At the country level, the emphasis is generally on straightforward unemployment percentages. However, it is of note that in the Netherlands the focus is on the unemployment differential between the problem regions and the national average, while in the United Kingdom different components of unemployment are examined – current unemployment, structural unemployment and long-term unemployment. Finally, the Danish approach considers the other side of the unemployment coin; here, the emphasis is on the different rates of employment in the problem regions.

A second important problem region indicator is income per capita. Like unemployment, this measure is used extensively by the European Commission in its consideration of problem region designation. Regions where GDP per capita is equal to or less than 75 per cent of the Community average are considered to be "least-favoured"; while those where per capita GDP is at least 15 per cent below the national average are normally viewed to meet the criteria for designation as a "development area". At the individual country level, income per head is generally utilised more than unemployment in area designation systems in the southern Community countries (in part because unemployment statistics in such countries can be distorted by both underemployment and migration trends), but tends to play less of a role in the north. This reflects the fact that in some countries appropriate income per head statistics are not available at the regional level while in others income per head measures are not subject to significant regional variation. While the main emphasis is on GDP per head levels (the statistic utilised by the Commission), it is of note that in Germany a measure of gross wages and salaries is used, while in Portugal the stress is a broader one on standard of living indicators generally.

Compared to these two main area designation criteria – unemployment and income per capita – the other problem region indicators highlighted. "Industrial structure" tends to be measured in a variety of ways depending on the country concerned – the proportion of employment in manufacturing or in services; the restructuring needs of regions (reflected by general industrial trends or by imminent job losses in specific sectors); or even occupational structure by region. "Economic prospects", is often included as a measure to counter the essentially backward-looking nature of most of the other indicators (and perhaps especially unemployment). Thus, in Germany, for instance, future employment trends are taken into account, while in Britain a calculation is made of the likely future jobs gap by region. "Demographic factors" most often tend to relate to migration trends, but also include, in some countries, regional

age structure, activity rates and the demographic situation generally. Finally, a number of countries incorporate "location-specific criteria" into their deliberations. In France, for example, considerable emphasis is placed on geographical criteria (like mountain regions and rural areas), as well as on levels of urbanisation; in Germany a complex measure of regional infrastructure provision is included; in Portugal the "degree of accessibility" of each region is taken into account; and in the UK both peripherality and levels of population density are considered.

At the Community level, the point has already been made that, for problem regions in the Member States to be granted "development area" status by the Competition Policy Directorate, an initial stage of the analysis involves an examination of unemployment rates (at least 10 per cent above the national average) and income per capita (at least 15 per cent below the national average). However, it is recognised that a simple arithmetic solution may not always be appropriate. As a result, a second stage of the analysis involves taking a range of other factors into account, one or more of which may be highlighted in the national area designation system of the Member State concerned. Such factors, as we have seen, may include the trend and structure of unemployment, net migration, demographic pressure, population density, activity rates, productivity, structure of economic activity, geographic situation and topography and infrastructure.

Weighting of indicators

So far, this section has dealt with two main aspects of the area designation process: the building blocks used for area designation purposes and the indicators employed to highlight regional problems. A third important issue concerns how the various criteria are combined to form a uniform overview of the severity of the regional problem. For some countries, especially those in the more underdeveloped parts of the Community, this is not a significant issue – not least because it is clear, irrespective of indicator, where the key problems lie. For other countries, the procedures adopted are covert so that it is not possible to identify in detail how the final outcome is reached. There are, however, a number of countries – including Germany, Denmark and the United Kingdom – where the approach taken to the combination of individual indicators is overt.

In the first two countries, weighting systems are adopted to combine indicators. Thus, in Germany, for instance, the four indicators selected were combined in the following proportions:

- gross wages and salaries of employees: 40 per cent,
- average unemployment rates: 40 per cent,
- a complex infrastructure indicator: 10 per cent,
- a prognosis of future employment trends: 10 per cent.

Together, these variables produced a "combined indicator" on the basis of which the structural strength of the various labour market regions was assessed.

In the recent area designation exercise in Britain, a different approach was adopted to obtaining a common overview of the regional problem. The government drew up indices of nine separate factors each of which was given a variety of weights.

Factor	Range of weights, %
Current unemployment	0 – 100
Structural unemployment	0 – 100
Long-term unemployment	0 – 5
Future jobs gap	0 – 10
Occupational structure	0 – 5
Activity rate	0 – 10
Peripherality	0 – 10
VAT growth	0 – 5
Population density	0 – 5

By varying the weights a broad picture was obtained of the basic problems facing different areas. Through an iterative process, it was possible to focus particularly on the appropriate status of areas on the margin or between tiers; and to take account of the wider regional policy needs of broader areas of the country. In addition, special account was taken of the needs of areas facing major, significant, known unemployment problems as a result of major closures or rundowns.

That relatively few countries follow the highly explicit route taken by Germany in particular, is understandable. Ultimately, wholly arithmetic solutions can be overly constraining in a context which is inevitably the subject of political interest. On the other hand, operating in a federal environment, there are obvious pressures in Germany for the approach to be as overt as possible if it is to obtain general acceptance. This is not to say that the German methodology is free of political influence. Various iterations are gone through before deciding on the appropriate weightings, and once the final breakdown of designated problem region coverage by Land has been agreed, the individual Länder are given some freedom to "fine tune" their designated problem regions within the ceiling allocated.

Assisted area coverage

Having obtained an overview of the regional problem – whether through a range of indicators or a single combined measure – the next stage is to decide on an appropriate cut-off point: what proportion of the national population should fall within designated problem region boundaries?

As far as trends in population coverage are concerned a similar north/south distinction holds (Yuill-Allen, 1993). Whereas in the southern (Objective 1) countries there has been very considerable stability in terms of designated problem region population coverage over the past decade, in the northern group the average percentage population coverage of the designated problem regions has fallen by almost 30 per cent. Excluding Luxembourg, which distorts the overall average, the decline for the remaining six countries has been from an average 32 per cent coverage in 1980 to an average coverage of just 22 per cent in 1993. Over a period of just 13 years this represents a very marked cutback. In part, it can be attributed to domestic pressures, most obviously expenditure constraints, but also increasing levels of unemployment in non-designated areas. However, it also reflects the efforts of the EC Competition Policy

Directorate to reduce designated problem region coverage in the more prosperous parts of the Community and especially in countries like Denmark, Germany and the Netherlands.

One last point to mention in the context of area designation is the extent to which countries make a distinction between different grades of problem region and set award ceilings accordingly. Rate discrimination by location is now a very common feature of regional aid packages. In nearly all of the countries listed a distinction is drawn between at least two different grades of problem region and in more than half of the countries three or more different location-determined award ceilings apply. As a consequence, the area designation process discussed in this section has become of increasing importance to regional policymakers: nowadays it is a central policymaker concern, not only to distinguish problem from non-problem areas, but within the former, also to draw appropriate distinctions between different grades of problem region.

Incentive instruments

Once appropriate areas have been designated for regional policy purposes, the question arises as to what types of regional incentive should be made available in these designated problem regions. For instance, should the emphasis be on fiscal support or on financial assistance? Moreover, what form should the available regional incentives on offer take? In particular, should they be administered in an overt, predictable manner (with, for example, the rate of award being directly determined by the award conditions) or should the award decision be essentially discretionary. These are the main issues for discussion in this section.

Types of incentive

Regarding the first of these questions, a distinction is drawn between five broad categories of incentive: capital grants, interest or loan-related subsidies, tax concessions, depreciation allowances and labour-related subsidies.

Grants in general, and capital grants in particular, are the mainstay of almost all the regional incentive packages on offer. Loan-related subsidies are, in contrast, of significance in just four countries and in none of these are they a central component of the package. Fiscal concessions which focus on designated problem regions are also relatively rare. They, too, are restricted to just four countries – and, indeed, this will be reduced to three once the Zonal Border Area special depreciation allowance in Germany is withdrawn in 1994. Finally, while labour-related subsidies are slightly more numerous, they tend to be restricted, for the most part, to small firms or the service sector. With the recent demise of the Mezzogiorno social security concession in Italy, there is now no major regional incentive consisting of on-going labour-related support in the Community countries.

A number of factors lie behind the incentive type distribution and in particular, the heavy emphasis on grant-related support. The arguments in favour of capital grants within regional incentive packages are numerous: from the perspective of the aid applicant, they are generally both highly visible and easy to understand; from the viewpoint of the policymaker they are straightforward to administer and yet afford

considerable flexibility; and, as far as the EU Competition Policy Directorate is concerned, they are the simplest of incentive types to police, falling readily within the Commission's net grant equivalent aid valuation methodology and ceilings. In contrast, loan-related measures are not always attractive to applicants (especially those which are already highly geared or have easy access to sources of finance) and carry with them far greater administrative burdens than grants. As a consequence, over the past decade there has been a clear reduction in the degree to which loan-related support has been available within the regional financial assistance packages of the Member States and a corresponding increased stress on grant-related assistance.

The past decade has also seen a significant move away from fiscal incentives within the regional incentive armoury. By their nature, such incentives tend to be administered by the national tax authorities which often makes it difficult for a specific regional component to be applied to them. They also tend to be difficult to value, with the result that they are not always viewed favourably by the EU Competition Policy Directorate. Their visibility also tends to be fairly low – a matter for tax specialists within companies rather than those involved in business development decisions. Of the Community countries, it is only in Greece that fiscal concessions remain of importance. There are perhaps two main reasons for this. One is that the financial incentive component of the Greek package has been facing considerable budgetary pressures – a factor which, in the short-run at least, does not constrain fiscal support. A second factor in Greece relates to the administration of the financial incentives on offer. In the Greek context, the feeling has been that there may be fewer administrative problems associated with fiscal support.

Just as fiscal measures have declined in significance over the past decade, so too has there been a reduction in the emphasis placed on labour-related assistance. In part, this reflects a shift in focus in a number of countries in recent years away from providing direct support for job creation and towards more general attempts to improve competitiveness within the regional economy, thus indirectly leading to the creation of more jobs. In addition, it can be attributed to an aversion to providing on-going assistance to problem regions through, for instance, concessions on social security contributions. Reflecting the negative stance of the Competition Policy Directorate to on-going support mechanisms, it is only outside the European Community – and in particular in the Nordic countries, where problem regions tend anyway to be facing continuing cost disadvantages as a direct consequence of their location – that such measures are now found to any significant degree.

There is one last point to be made with respect to incentive types. Although capital grants dominate current regional incentive packages, it would be wrong to conclude that investment-related support generally has been increasing in significance. On the contrary, since the early eighties a number of major investment-oriented schemes have been withdrawn in the Community countries, often for budgetary reasons: the IDA re-equipment and modernisation programme in Ireland (1982); the WIR regional allowance in the Netherlands (1983); the company soft loan in Denmark (1985); the British regional development grant and Northern Ireland standard capital grant (1988); the investment allowance in Germany (1989) and the entire Danish regional incentive package (1991).

The regional incentives which have been introduced in place of such measures have tended to be much smaller scale and to have a specific focus – in the early eighties on

training provision and the needs of the service sector and, more recently, on encouraging improvements to the general business environment (for instance, through consultancy support) and addressing the needs of small firms and indigenous industry. Overall, there is now considerably less of an investment orientation to regional incentive packages than was the case a decade or so ago.

Award rates

Having discussed which areas should qualify for regional policy support and the types of regional incentive to offer, a further important issue concerns appropriate rates of incentive award. In considering award rates a number of distinct questions arise: at what levels should maximum award ceilings be set (and to what extent do international rules influence these maxima)? What factors should be taken into account in the determination of actual award rates, and to what extent should average rates of award depart from the potential maxima? These are the main topics considered in this section.

Award maxima

The countries in the table divide into two clear groups: those where the overall maximum award is in the 20 per cent to 35 per cent range (and is, most commonly, 25 per cent); and those where the overall maximum lies between 50 per cent and 75 per cent. The first group consists of the northern Community countries – Belgium, Denmark, France, Germany, Luxembourg, the Netherlands and Great Britain – while the second group is made up of mainly southern Community countries with major Objective 1 regions: Greece, Ireland, Italy, Portugal and Spain.

The overall award ceilings closely mirror the upper limits set by the EU Competition Policy Directorate in its control of regional aid (CEC, 1988). It has already been noted that the Competition Policy Directorate distinguishes between “least favoured areas”, and “development areas”, in its consideration of Member State area designation exercises. In the former, the investment aid ceiling is 75 per cent net grant equivalent after tax, while in the development areas the maximum authorised varies by location up to a ceiling of 30 per cent net grant equivalent after tax.

While it would be foolish to ignore the Commission ceilings – not least because they can indeed represent actual award maxima for certain projects, most notably and particularly attractive inward investment cases – it would be equally misguided to view them as indicative of standard award levels. On the contrary, for the vast majority of projects, rates of award fall far below the ceilings set. There are two main reasons for this. One is that, as already mentioned, there is considerable rate discrimination within regional incentive packages, not only by location but also by project type (setting up projects being favoured over extensions and modernisations) and firm size (small and medium-sized enterprises being favoured over larger firms). Thus, for instance, under the regional incentive legislation recently introduced in Italy the maximum rate of award is 65 per cent for SMEs in the worst-off parts of the country but is only 20 per cent for small firms in the designated Centre-North and is just 10 per cent for medium-sized Centre-North firms. In similar vein, the award ceilings for the designated *Gemeinschaftsaufgabe* Areas in west Germany vary by location and project type – being 18 per cent,

15 per cent or 12 per cent for setting up projects, depending on location; 15 per cent or 12 per cent for extensions; and 10 per cent for rationalisation and reorganisation projects.

A second important point is that average rates of award fall far below the potential maxima – generally ranging from one-third to some two-thirds of the available ceiling. Thus, in the northern Member States average awards tend to be below 15 per cent of eligible expenditure and often fall below 10 per cent. In those countries with major Objective 1 regions average awards are obviously higher, often lying between 25 per cent and 35 per cent of eligible expenditure; however, they still rarely exceed half of the overall maximum. To some extent, the significant differences which exist between award maxima and average award rates can be attributed to budgetary constraints. In addition, they obviously reflect the discretionary nature of most regional incentive packages nowadays and the fact that any given project is likely to meet only some of the award criteria specified.

Award factors

Apart from the rate maxima, an important issue to highlight concerns the main factors taken into account in the determination of individual awards. Obviously this varies by regional incentive and by Member State. Nevertheless, viewing the Community as a whole, four main factors tend to be taken into consideration.

First, there is the strategic importance of the project, both within the region (and nation) and globally. Particular stress is often placed, on the one hand, on activities which utilise indigenous resources (or which more generally have significant regional multiplier effects) and, on the other hand, on technologically-advanced developments which suitably complement the sectoral strengths of the regional/national economy.

A second important aspect is often the employment implications of the project. These are not always solely measured in terms of direct jobs created (though a simple head-count can often be important, especially where there is an explicit aid per job limit to the support which can be offered but often also take into consideration the quality of those jobs.

Third, emphasis is often placed on the value added associated with the project. In general, the aim is to focus assistance on those activities which are likely to be particularly productive.

Lastly, an important consideration with respect to the level of award offered is the proven need for assistance. This is especially emphasised within the British regional selective assistance scheme where it is made clear that the support awarded will be the minimum necessary to bring about the additional benefits associated with the project.

Payment procedures

If an investment project satisfies the award conditions laid down relating to criteria such as the strategic importance, employment, value added and need for assistance of the project an application may be approved and an award made. However, the payment of awards to aid recipients does not follow automatically; rather, it is governed by three important factors (Bachtler, 1990):

- the timing and phasing of aid payments,
- the monitoring of awards and enforcement procedures, and
- penalties such as “clawback” arrangements.

Phasing

The extent to which an award is paid out in one lump sum or delayed by phasing requirements can significantly affect the value of an award rate – reducing its effective value by 10–20 percent in some cases (Yuill *et al.*, 1993). The administrative practice with respect to incentive payments varies greatly across the EU. In Denmark, the normal procedure is for the grant to be paid out in a lump sum against bank guarantees as soon as the applicant wishes, whereas in Germany incentive payment is made in line with project expenditure.

A more common situation is for the payment of awards to be explicitly phased over a set period of time. Awards, especially those involving larger sums of money, are frequently divided into two or three instalments, payable once certain job creation or investment levels have been attained by the applicant firm. In Great Britain, for example, regional grants are generally paid in three instalments: the first is paid at least one year after the project has been approved on condition that at least one-third of the projected new jobs have been created or one-third of asset expenditure has been defrayed. The second and third instalments follow 12 and 24 months later in line with project progress.

From the viewpoint of incentive administrators, the phasing of payments is intended partly to provide some control over the payment of incentive moneys and to ensure that the award conditions are being met. However such a system also endows the payment procedure with a degree of flexibility; projects frequently change in scale or scope in response to changing economic circumstances, and the phasing of payments enables a project to be reviewed regularly by administrators and for awards to be adjusted if necessary. Indeed, in some cases this flexibility can be used to justify “front-loading” an award whereby a proportion of the award is paid out before the project has been started.

Monitoring

The monitoring of projects and enforcement of award conditions has two elements. On the one hand, administrators undertake payment-related monitoring involving the conduct of audits and similar checks (including site visits) by specialist monitoring officers to ensure that specified levels of employment or investment are actually being created and that award payments are warranted.

In addition, monitoring is undertaken beyond the end of a payment period; eligibility conditions frequently require a firm to retain assets or jobs for a certain “condition period”. In Germany or the UK, for example, assisted assets must be kept for at least three years in the applicant’s firm. By contrast, under the main regional incentives in Italy, once an award is made, aided investment assets such as plant or equipment must be used for at least five years (ten years for buildings) for the purpose originally stated in the application. In Ireland, arrangements are even stricter; projects have to meet performance targets, and no change can be made in the status of the grant-aided firm within a period of ten years without the consent of the administering department.

In general, whereas payment-related audit and monitoring procedures are relatively standard across the EU, the stringency of condition periods is related to the level of

grant aid. In those countries where aid ceilings are higher and grant awards are potentially more generous (i. e. Ireland, Italy) administrators tend to insist on longer monitoring periods over which aided assets have to be maintained. Countries with lower grant levels, such as the UK, France or Germany, do not impose a condition period of longer than three years.

Clawback

If award conditions are not met or maintained within the specified conditions period, part or all of the grant may be reclaimed or "clawed back". This applies mostly to cases where a company fails to meet job targets. In Ireland, for example, where some of the most stringent clawback conditions apply, grant aid may be revoked or cancelled and repayment demanded if, within a ten-year period, a company fails to provide the specified fixed assets or to meet other conditions relating to the grant award.

In practice, incentive administrators in all countries use clawback provisions with reluctance apart from cases of dishonesty or fraud (*Bachtler-Raines-Wishlade, 1993*). It is relatively uncommon for administrators to insist on the reimbursement of grant moneys already paid out; more frequently, the phasing of payments means that administrators can withhold payment of grant instalments either temporarily or indefinitely. The political sensitivity associated with clawback, and the potential for creating disincentives for future investment (especially foreign investment) means that the implementation of clawback arrangements are always undertaken with care and often referred to higher authority.

Incentive expenditure and budget forecasting

Regional incentive expenditure

In 1990, the Member States of the Community spent almost 12 billion ECUs on their regional incentive policies. Over three-quarters of this expenditure was accounted for by Italy alone, which maintained significant automatic aid and social security concessions in its regional policy package long after other EU countries had abolished or restricted such aid. Leaving Italy aside, the scale of regional incentive spending has largely reflected country size. Based on 1990 expenditure size, countries can be divided into four groups (*Bachtler-Yuill, 1993*):

<	30 MECU:	Denmark, Luxembourg
100 MECU -	300 MECU:	Netherlands, Belgium, France, Ireland, Portugal, Greece
700 MECU -	800 MECU:	Germany, Spain, United Kingdom
>	8000 MECU:	Italy

While these global magnitudes are of general interest, of more concern to regional policy makers are indicators of policy scale which adjust for country size. One such indicator involves relating regional incentive expenditure to national GDP levels. When this is done for the Community countries using 1990 expenditure data, four broad groupings again emerge (*Bachtler-Yuill, 1993*):

< 0.02	per cent of GDP:	Denmark, France
0.05 – 0.1	per cent of GDP:	Netherlands, Germany, the UK, Belgium
0.4 – 0.6	per cent of GDP:	Luxembourg, Spain, Portugal, Greece, Ireland
> 1	per cent fo GDP:	Italy

In short, relative regional incentive spending is considerably higher in those Member States with major Objective 1 regions than it is in the more prosperous northern countries. This is, however, not unexpected. Moreover, designated problem region coverage is far more extensive in the Objective 1 countries than it is in the northern Member States. As a consequence, the differences between the various regions of the Community in terms of policy intensity (relating expenditure to the population located in those regions in receipt of support are considerably less than they are in terms of policy scale.

One last point to note in respect of regional incentive expenditure concerns spending trends. Over the past decade, regional incentive expenditure has been falling in most EC countries, especially those in the northern part of the Community. In 1990, Denmark, France, Ireland, the Netherlands and the UK had regional incentive expenditure levels at about half the expenditure levels provided in 1980. By contrast, southern Member States have experienced significant increases in regional incentive spending in recent years, often following the introduction of new legislation in the second half of the 1980s. In some of these countries (Spain, Portugal, Italy), expenditure has risen by between two and five times over the 1986–1990 period, although expenditure constraints suggest that the growth will slow in the 1990s.

Incentive budget forecasting

In the implementation of regional incentive policies one of the most difficult issues, technically and politically, is the forecasting of the expenditure to fund incentives. The major problem is that projections have to be made 1–3 years ahead. Over such time periods the volume of applications and, more importantly from an expenditure viewpoint, the flow of claims for payment may fluctuate significantly. The rate at which firms “draw down” or submit their claims for payment can be spread over many years. Moreover economic circumstances change: during a recession the rate at which firms submit applications or claims for payment may vary significantly as firms postpone, downgrade or even cancel investment decisions.

For most countries, budget forecasting is an annual exercise, generally looking one year ahead, although indicative plans for a further two years may be required even though such forecasts are likely to be imprecise or hypothetical. In general, forecasting systems involve a mix of administrative information and economic trend data, using as a baseline the current annual budget to which adjustments are made on the basis of anticipated demand. The main data are as follows:

- the historical record of applications, offers, claims and payments,
- the application/offer withdrawal rate i.e. the proportion of project applications that are withdrawn or turned down before they get to the offer stage,
- the offer rejection rate i.e. offers turned down by the applicant, perhaps because the award rate is too low,
- draw-down rates (i. e. the rate at which claims for payment are submitted by applicant firms) and non-payment rates, (i. e. claims that are not submitted or are submitted for amounts lower than expected),
- large project awards, which are assessed separately in making budget forecasts because of their potential for distorting patterns, and
- economic data such as forecasts for trends in business investment, inflation or interest rates.

The degree to which these data are used, and the sophistication of forecasting systems employed, varies significantly across the EU. Whereas the UK uses a highly complex series of computerised forecasting models, other countries such as France employ a more qualitative approach relying on personal experience and judgement. Regardless of the techniques employed, however, budget forecasting operates within a considerable margin of error. The combination of variations in the decision-making behaviour of hundreds of individual entrepreneurs, as well as the vagaries of micro- and macro-economic conditions, mean that even highly sophisticated modelling approaches can involve considerable inaccuracy (on the order of +10–20 per cent), even over the short term.

Evaluation

The final component of regional incentive design comprises assessment or evaluation techniques. Over the past 30 years, numerous evaluation studies of regional policy have been undertaken with various motives (*Wadley, 1986*):

- the assessment of policy effectiveness, i. e. the redistribution of economic activity, effect of incentives on location decisions, employment creation;
- the evaluation of policy efficiency i.e. cost-per-job measurement; and
- the financial impact of policy (net costs to the national treasury).

In the past, most policy evaluation tended to be undertaken in the United Kingdom. Over the past decade, however, many EU governments have accorded growing attention to policy evaluation, prompted in part by the need of regional policy makers to demonstrate cost-effectiveness and value-for-money to national treasuries and audit offices. The trend has also been encouraged by the European Union where policy appraisal, monitoring and evaluation (encompassing *ex ante*, *interim* and *ex post* evaluations) of EU regional policy measures were emphasised in the 1988 reform of the Structural Funds and again in the recent 1993 revision of the Fund regulations (*Bachtler-Michie, 1993a, 1993b*).

The evaluation research undertaken to date has varied greatly between EU countries in terms of methodology, sophistication and scope. In part this reflects differences in technical competence between Member States, varied experience with evaluating regional development policies, and differing perspectives on the degree to which evaluation is required and justified.

However, it also arises from the complexity of evaluation itself. Most evaluation techniques have to confront similar problems, notably:

- *objectives*: a possible lack of clarity and specificity concerning the objectives of regional policy as a whole or (the relative weighting of) individual measures,
- *additionality*: whether assisted projects would have gone ahead anyway in the absence of regional aid,
- *displacement*: the activities (i. e. jobs) that are displaced as a result of assistance being given to other activities, and the wider problem of calculating secondary or indirect (positive or negative) multiplier or linkage effects,
- *causality*: the difficulty of isolating the impact of Structural Fund expenditure alone and attributing specific effects to particular measures,
- *counterfactual*: the need to establish what would have happened in the absence of policy, and
- *data availability*: at the micro-level, data may be insufficient or totally absent for the territorial units over which regional policy is operated, especially if the areas do not coincide with statistical territorial units.

In view of these difficulties, a wide range of possible evaluation techniques has been developed. They begin with relatively straightforward interview-based ad hoc reviews of expert views or regional/national experience as well as micro-studies or surveys involving various degrees of experimentation (i. e. matched pairs). At the macro level, modelling approaches have sought to explain, or control for, the behaviour of the activities that policy seeks to influence and then to estimate the effect of both policy and non-policy influences – either by ex ante simulation or ex post econometric or statistical investigation (i. e. comparing policy-on and policy-off periods, or structural standardisation such as shift-share analysis). Lastly, various multi-dimensional impact techniques are available covering a range of impacts (i. e. economic, social, environmental) sometimes using multi-criteria analysis without obligation to translate all effects into monetary values (*Blaas et al.*, 1992; *Ashcroft*, 1991).

Conclusions

In comparison with some other regional policy measures, regional incentives are complex instruments. As this paper has shown, incentive design involves numerous components which can be implemented in various ways. Despite this apparent complexity, regional incentives have been the mainstay of regional policy packages throughout Western Europe for much of the post-war period. Particularly in their “heyday” – the 1960s and 1970s – regional incentives were employed in large and diverse numbers, encompassing capital and employment grants, soft loans and interest subsidies, tax and depreciation allowances, transport and freight subsidies, employee relocation aids and social security concessions.

Latterly, however, regional incentives have come under considerable pressure in some countries. In part, this is attributable to the reduction in direct government economic intervention in the form of subsidies, through the actions of both national governments and the European Commission’s Competition Policy Directorate DGIV. In addition there has been growing concern that regional incentives may not be appropriate for current regional development challenges in the EU, especially in

Northern European countries. It has been suggested, for example, that their targeting is narrow, that their take-up by firms is random and competition-distorting, and that their effect may be short term.

Nevertheless, as noted at the outset of this paper, regional incentives are resilient instruments. Indeed, they retain many advantages. They are flexible and can respond quickly to changing economic and budgetary conditions; they are an effective instrument for promoting rapid capital investment; they are a significant weapon for competing for foreign investment; and they provide a useful "sign posting" function in publicising the intended direction of government policy in the regions.

Despite their complexity, and the reappraisal of their value in parts of Northern Europe, regional incentives are likely to remain an important feature of European regional policies for the foreseeable future.

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13 STRUCTURAL CHANGE AND REGIONAL POLICY: THE STAND OF THE DEBATE IN SWITZERLAND

ANGELO ROSSI

Introduction

According to the provisions of the Swiss constitution, regional policy, as well as any other intervention of the State which could modify the market conditions (in juridical terms the "liberty of production and commerce"), represent an exception to the free market rule and is accepted only to regulate exceptional situations. A situation can in this sense be considered as exceptional when the economic welfare of a region is threatened or when the survival of an industry, which is very important for one or several regions is menaced. The Confederation can in such cases introduce regional policy measures. These measures have however to be sanctioned by a popular vote. In other words economic policy and in particular regional policy belong in Switzerland to the kind of political instruments which possess the character of exceptional interventions.

Exceptional intentions are particular justified when the events with which one has to confront are out of the norm. So one would think! The structural change which over the last twenty years has transformed the production structure of the Swiss economy has certainly been one of these events. Accordingly, both the parliament and the government of the Confederation have tried to build up a response to the new challenges created by the structural change in terms of new policy measures, in particular of new regional policy measures. This response has not been completely satisfactory, as:

- 1) the measures introduced sometimes missed the target,
- 2) it was impossible or too long to get the necessary political agreement to introduce them.

The history of the regional policy development in the structural change period is therefore characterised, in Switzerland, by a significant discrepancy between the efforts which were produced in the debate over the new direction and orientations one should give to the regional policy, and what one could reach in terms of factual measures, approved by the electorate.

We will directly deal with the description of the way in which this discrepancy has risen in section 3 of this paper. In section 2, however, we will present some data on the impact of the structural change. Finally in section 4 we will summarise our arguments and present some conclusions.

The structural change: definition and impact

In the case of the Swiss economy the structural change can be defined as the rapid variation of the shares of the secondary (manufacturing and construction) as well as of the tertiary (services) sectors in total employment or in the value added aggregate. The percentages in *Table 13.1* describe, with reference to the employment structure, the development of this phenomenon over the last 25 years.

Table 13.1

Change in the employment structure over the period 1965–1991, per cent

Sectors	1965	1975	1985	1991
Primary sector	10.5	7.9	6.6	5.5
Secondary sector	48.4	41.5	38.0	34.4
– of which manufacturing	43.6	35.2	25.7	no data
Tertiary sector	41.1	50.6	55.4	60.1

Source: Statistik der Erwerbstätige, BFS, for the years 1965–1985; Betriebszählung for 1991.

From 1965 on, both the share of the primary and that of the secondary sector in total employment have diminished, whereas the share of the tertiary sector has increased. According to the available data it seems that in manufacturing activities, the decrease in importance has been more rapid than in the other activities of the secondary sector. The structure of the value added by sector has more or less shown the same kind of development tendencies.

At the national level, the structural change did not give rise, at least up to the beginning of the nineties, to major employment problems, as the total number of people employed increased. At the regional level the adjustment to the structural change was however more difficult, especially where the share of employment in manufacturing was high.

We notice that the Cantons which between 1965 and 1985 lost the larger numbers of jobs were also those in which the share of the secondary sector in total employment was very large. In many cases the loss of jobs depended on the fact that one or more of the industries with the larger decrease in employment – like the drinks and tobacco industries, the textile industry the clothing industry and the watch and jewellery industries – were densely concentrated in those Cantons.

At the same time, we can observe that the industrial restructuring Cantons did not belong, at least in part, to the regions which were supported by the program to promote infrastructural investment projects in the mountaineering areas which then represented the traditional regional policy of the Confederation. From this statistical presentation we can draw the following provisional conclusions with respect to the relationship between structural change and regional policy:

- 1) the structural change has led to the emergence of different regional trends in the employment development,

- 2) the regions which were especially struck by the deindustrialisation phenomenon were those in which manufacturing occupied a very important place in the regional economy,
- 3) in those regions unemployment and out migration were for a time very important, at least with respect to the previous experience of the Swiss economy,
- 4) employment problems become therefore more important as targets for regional policy programmes of what they had been in the past.

In synthesis, the major structural change within the Swiss economy, from 1965 to today, obliged the federal authorities to revise the existing regional policy in order to take into account the new challenges in the regional economic development which were brought about by the deindustrialisation phenomenon. The first of these realities was that a number of industrial regions, which until then had not known economic difficulties, began to experience employment problems. The second reality was that the existing regional policy measures (financial help to infrastructural investment) were not adapted to stimulate the creation of new entrepreneurial initiatives and jobs in the declining industrial regions.

A point which was to take an important place in the debate on regional policy, which started as soon one realised that a more direct intervention of the State was needed, was whether the state support should be oriented towards the needs of special categories of establishments, in particular the middle-sized and the smaller ones. It is therefore interesting to analyse whether size of the establishments played a significant role in the structural change. In order to do this we tested whether the structure by size of the establishments in the Cantons was correlated with the percentage variation in employment. With the data which were available to us we did not find any significant correlation between these two variables. The change in employment was instead negatively correlated, but not in a significant way, to an average location factor indicating the importance in each Canton of the employment in the 5 most declining industries – drinks, tobacco, textiles, clothing and watches – in 1975. Again these declining industries were not marked by an under average size of their establishments. It seems therefore that the industrial decline in Switzerland, as in other Western European countries, has to be considered as a problem related to changing market conditions in particular industries (in general industries with low productivity) rather than to the size of the production establishments. However, even if, from the point of view of development which took place in the period 1965–90, the small establishment did not appear as a production unity particularly threatened, in the debate over the necessity of new regional policy programmes, the small establishment occupied a central place. The reasons for this will be considered further.

Regional policy for the structural change

At the federal government level regional policy is in Switzerland of relatively young age. The first programme, the already quoted infrastructural investment programme for the mountaineering areas was in fact introduced only in 1975. This programme was based on the idea that a significant part of the further growth of the manufacturing and service investment could have taken place in the alpine and in the Jura-areas, provided that the supply of infrastructure (nodal as well as net infrastructure) in those areas

would be improved. In this sense the infrastructural investment programme has to be considered as one of those "jobs to people" programmes which were so characteristic in Europe during the period of fast growth. It is also useful to stress that the programme measures did not foresee any direct financial help for firms and establishments. The state limited his intervention to the financing of public goods like roads, schools, sewage, leisure infrastructure and so on. The possible employment effect of these investments was therefore only an indirect one.

From the redistribution objective to the restructuring objective

We add that, from 1975 on, that is to say from the moment it was introduced on, this indirect "jobs to people" strategy was hampered by the appearance of the structural change. The background of rapid economic growth of the decades before 1975 was drastically modified after this date by the appearance of the following tendencies:

Table 13.2

Change in the number of establishments over the period 1975/85 by sector

Sectors	Number of establishments in 1975	Change absolute	1975/85, %
Agriculture	118,353	-14,133	-11.9
Manufacturing	45,472	-4,310	-9.5
Agriculture	25,803	3,354	13.0
Services	216,177	17,238	8.0
Total	405,805	2,149	0.5

- 1) The net change in the number of establishments over the period 1975-85 was practically equal to zero (+0.5 per cent). This net balance was the result of a decrease of 12 per cent in the number of establishments of the primary sector and of a decrease of 9.5 per cent in the number of establishments of the manufacturing sector. The decreases in these activities were contrasted by an increase of 13 per cent in the number of establishments of the building industry as well as an increase of 8 per cent in the number of establishments of the services sector. Owing to these structural change tendencies, the potential for regional redistribution of capital, and especially of manufacturing capital, declined, as the number of establishments in the manufacturing sector declined.
- 2) We further remark that as a result of the expansion of the tertiary activities, activities whose location - with the exception of the tourism industry - is predominantly urban, the share of the urban Cantons in the total number of establishments increased. These Cantons (Zürich, Basel and Geneva) saw an increase of 2.7 per cent in the number of establishments. The number of establishments in the intermediate Cantons remained constant while in the peripheral Cantons, the number of establishments diminished by 0.1 per cent, owing mainly to the negative impact of structural change in two peripheral Cantons namely Jura and Ticino.

The federal decree in favour of the regions menaced in their economic substance

The new regional policy which was created to respond to the challenges of the structural change abandoned the objective of establishing a spatial equilibrium by the redistribution mainly of manufacturing activities to mountaineering regions, and concentrated its attention on the declining industrial regions. It acknowledged that these regions were faced with two kinds of problems, namely:

- 1) with the necessity of restructuring many of the existing production activities in order to allow them to remain competitive,
- 2) with the equally important challenge to create new activities in, when possible, different manufacturing sectors than those which were till then represented in these regions. This task was especially important in the Jura regions in which the watch industry occupied a dominant place in the employment structure.

This new strategy can be named the "structural change" strategy, in order to mark the difference with the aims of the "infrastructural investment" policy for the mountaineering areas which, it is useful to stress, continued in operation. The new policy orientation was to be implemented by two instruments of which unfortunately only one came into being. These two programmes are:

- 1) the decree concerning the regions whose economic welfare was threatened, introduced in 1978 and still working,
- 2) and the so-called "innovation risk guarantee" which was turned down by the Swiss electorate in a national referendum in 1985.

The decree in favour of the regions in economic difficulties was very much inspired by the structural change which had taken place in the watch industry. The objectives of this programme were, on the one hand to promote innovation in the industries which were threatened by the deindustrialisation tendency, and on the other hand to raise new industrial initiatives outside the threatened branches in order to try to diversify the production structure of the deindustrialising regions. In his report to the parliament concerning the new programme, the federal government was keen to underline the exceptional character of the proposed measures. They would be applied only in a restricted number of small regions. They would concern only a limited number of firms, whose long term survival could be assured by new investments and although they should facilitate investment through the reduction of the investment risk, they should not substantially modify the criteria by which the investment decision would have been taken by the entrepreneur as well as by the bank financing the investment project.

The decree introduced three kinds of measures, namely:

- 1) a federal guarantee for the investments made by existing or new firms in order to satisfy the objective of the decree,
- 2) a federal, a cantonal as well as a private (from the banks) contribution on the amount of interest the firms would have had to pay to the banks, in order to finance their investment projects,

3) fiscal arrangements to reduce the fiscal burden of the investing firms in the first years after the investment

As far as the results are concerned we can maintain that the programme of 1978 was rather successful (BIGA, 1993). Only a minor share of the approximately 500 investment projects which were warranted by the federal government ended in a failure (12 per cent). The investment projects supported with the measures of this programme helped to create or to maintain around 10,000 jobs in the regions threatened by the structural change. This number of jobs compensated in most regions for the jobs which were lost during the structural change. Finally, the programme interested above all small and middle sized establishments. 90 per cent of the firms taking part to this program had less than 100 employees (BIGA, 1993).

The guarantee for the innovation risks

At the beginning of the eighties Switzerland experienced a new recession with a mounting unemployment level. In 1983 the federal government proposed to the parliament a new programme of measures to dam up the negative consequences of the structural change. The central piece of this programme was the guarantee against the risks of innovation activities which should have allowed middle and small firms to increase their innovation investments. In the report of the federal government to the parliament the introduction of this instrument was justified on the basis of the following reasoning. Over the seventies, the export shares of Switzerland in the import of technological products by the OECD countries had decreased. At the same time the imports of technological products into Switzerland had significantly increased. For the federal government these tendencies had to be attributed to the weakness in the technological innovation activities of the Swiss economy. The investments in innovation activities as such were not unimportant. The problem for the Swiss economy was, and still is, that these investments were concentrated in a few industries (especially in the chemical and in the pharmaceuticals industry) and, in general, in the larger firms of these industries. The innovation activity in establishments of middle or small size was very weak.

The problem with which one was confronted was to promote innovation investments in the middle sized and small sized firms. According to the Swiss federal government the major hindrance to innovation in these firms was the lack of venture capital. Middle and small firms could not finance their investments with their own means. They were obliged to go to the banks, which in their turn were not prepared, in most cases, to assume the risk of the innovation investment projects proposed by the middle sized and small sized firms. The middle and small firms were not lacking of creativity. What they needed, in order to stimulate innovation, was the necessary venture capital.

The instrument proposed in this programme should have helped the middle and small enterprises to overcome the difficulties in financing innovation projects. The innovation risks guarantee was an insurance scheme by which the federal government was prepared to take upon himself in part or totally the losses which would have fallen on the firms in the cases where the innovation investment failed. The opponents of this scheme care, surprisingly, from the middle and small sized firms milieu. They mainly argued that :

- 1) it was not true that the Swiss firms and in particular the middle and small sized establishments were internationally losing ground because of their lack in innovation capacity,
- 2) that for investment in innovation projects the Swiss financial institutions made enough capital available, also to the smaller firms.

The opponents did not refuse the direct support from the state. They however maintained that the best way to help middle sized and small sized firms was to decrease their tax burden, to deregulate in several policy fields and to strengthen the research and the education policies (Forschungszentrum für schweiz. Politik, 1986).

The insurance scheme proposed by the federal government was submitted to the popular vote in 1985 and as we already recalled was turned down by a majority of the Swiss electorate.

*From a policy of direct financial support to the individual firm
to measures in favour of all firms*

The political debate over measures which could help the economy to adjust to the structural change did not end in 1985. One can instead maintain that 1985 was in a certain sense a year in which the regional policy gained renewed attention at the national level, owing to the publication of the final report of a major national research programme (Fischer-Brugger, 1985).

In this report the researchers made a series of proposals in order to make the existing regional policy more efficient. Among them there was the proposal to extent the measures in favour of the regions threatened in their economic welfare, to the mountaineering regions as well as the proposal to promote innovation in all the sustained regions.

After having analysed the proposals made by the researchers of the national research programme on regional problems, the federal government published in 1986, its directions for regional policy in which it asked the federal administration:

- to identify the regional consequences of every new large sized investment project as well as of every new policy programme,
- to favour, when possible, the peripheral regions by public tenders,
- to regularly report to the federal government about the initiatives taken in order to better co-ordinate (horizontally and vertically) the policies and projects with regional impact.

The question about the necessity of revising the objectives of the existing regional policy was not touched on in the federal government directions. This question was instead broached by the advisory commission on regional policy in her report to the federal government of 1987. The commission examined the proposals by the researchers of the national program and made in her report three kinds of recommendations to the federal government, namely:

- 1) that the objective of the existing regional policy should be broadened in order to include the promotion of technological innovation as well as the consideration of environmental quality, both in the case of the regional development programmes as well as in case of the single infrastructural investment projects,

- 2) that the infrastructural fields to which the financial help of the federal government would apply should be extended to the energy systems as well as to the infrastructural needs of the firms,
- 3) that the application of the infrastructural investment programme should be decentralised, giving more decision making power to the Cantons and to the regions.

The next step forward in the debate on regional policy was made at the end of the eighties when suddenly the question of the European integration entered Swiss politics. From the point of view of regional policy the European integration debate brought the necessity of dealing with questions like:

- 1) are the Swiss regions economically competitive with the European ones?
- 2) are the instruments of the federal regional policy compatible with the European agreements?
- 3) which kind of relationship is going to develop between the national regional policy and the regional policy of the Community? (Rossi, 1992).

All these questions remained practically unanswered as the Swiss people turned down the proposed agreement to enter the European economic space in a national referendum. In the heat of the European debate the Swiss society for spatial planning and regional policy published a manifest in which it presented what it called a new strategic conception for the regional policy of the federal government (ROREP, 1992). The authors of the manifest thought that the new conception was needed because the programmes which the federal government had introduced up to now were not efficient enough and because the structural change and the opening towards the European market settled new challenges for the Swiss regions. The proposed new conception does not directly put forward new programmes or instruments for regional policy. IT insists instead on the strategic characteristics a regional policy should possess. For us the three most important characteristics of this conception are:

- 1) that one should abandon the concept of regions in need of the state support for a definition of regions in which the federal government would intervene which could vary according to the problem one has to deal with,
- 2) that the federal government should put up some sort of early warning system to detect as early as possible future regional problems,
- 3) that the federal government should publish directives for dealing with cases of conflict between regional policy objectives and objectives pursued in other policy fields.

This review of the regional policy debate in the political as well as in the scientific arenas, will end with a presentation of the new proposals which have been put forward, in June 1993, by the federal government in order to replace the 1978 programme, which will expire in 1994 (BIGA, 1993). In the new programme there is a shift in the objectives from the support of individual firms, which would like to make new investments, to the support of industrial infrastructure and services which would be beneficial to all, or to a large group of firms. This change in accent results already from the denomination of the new programme. The federal government speaks of measures to reinforce the economic structure and the regional location factors. In order to do this it proposes on the one hand to continue with the measures of the 1978 programme, although on a restricted scale, and on the other hand to introduce

measures which will help all the firms, independent of whether they are located in a threatened region or not. These measures are subsidies to innovation consulting organisations as well as subsidies to organisations which would inform Swiss firms, or negotiate for them or counsel them in relation to research or other relevant European and international programmes and projects. These measures are needed in the opinion of the federal government because with the development of the European market, the continuing structural change and with the impending world-wide recession, situation of the Swiss firms has worsened.

Conclusions

The structural change with the accompanying deindustrialisation phenomenon represented in Switzerland, as in the other West European countries, a major turning point in the recent history of economic development. As we tried to show in this paper, the structural change also caused a major change in the regional problematic, as some of the industrial regions, which up to the beginning of the seventies were considered to belong to the group of well-off regions, began to experience the signs of a long term economic decline. The regional policy of the federal government, had to be adjusted to the new situation. The main observations of our presentation are that:

- 1) the structural change created a need for direct intervention by the federal state to support established firms or new firms which wanted to undertake innovation projects, restructuring projects or diversification projects,
- 2) as time went by, a general agreement among politicians and regional policy experts emerged, according to which the middle sized and the small sized establishments were the production units experiencing the biggest difficulties in the structural adjustment process and that it was necessary to find adequate measures to help these establishments which, especially in peripheral regions, represented the largest share of the total number of establishments. On the kind of measures and instruments needed to facilitate structural adjustment, there did not however exist an agreement, as the results of the referendum of 1985 demonstrated.

The regional policy measures applied or proposed to deal with the structural change problems were only partly successful as the share of spatial mobile capital significantly declined over the last two decades. On the top of this difficulty one has to recall the rather strict liberal constitution which only leaves the federal authorities a limited room for manoeuvre as far as direct intervention of the State in economic matters is concerned. With the few means and possibilities which were available to it, the federal government managed, at least up to the beginning of the nineties, to adjust the economy to the structural change avoiding the regional drawbacks that were experienced in other Western European countries. This emerges clearly from both the statistical series concerning the development of the total number of establishments as well as from the evaluation of the results of the 1978 regional policy programme. This favourable situation will probably not continue into the nineties. With the present recession, unemployment has risen to record levels while at the same time major regional disparities in unemployment have appeared. It is difficult to say whether the present situation is going to induce the federal authorities to prepare a third generation

of measures in the field of regional policy. The size of the problem should induce the federal government to act in this direction. But the federal government is presently engaged in a programme of free market renewal (Arbeitsgruppe, 1992) whose major aim is to achieve deregulation in many fields as well as to dismantle the cartel structure which has up to now characterised the Swiss economy.

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14 RESTRUCTURING AND REGIONAL POLICY IN THE CZECH REPUBLIC

JÍŘI KERN

The Czech Republic, in that time Czechoslovak Federal Republic, started, after November 1989, the course of transformation of its economy to market conditions. The liberalisation of prices, and internal convertibility of currency took place. The privatisation process is taking place, and not only goods market but also labour market and capital market started to operate. Economic policy is, in the currency area, oriented toward the consistent anti inflation policy; at the same time, the fiscal policy pursues the minimalisation of Government intervention in the economy in the form of expenses – from the national budget.

The other basic changes concerning the approach of the Government to regions has taken place. The former system of regional planning helped to manage economic problems (challenges) which have been decisive for the function of whole system. In the Czech Republic, according to former doctrine, about priority importance of heavy industry, it concerned especially regions created on the basis of coal mining and coke, iron, steel, rolled stock productions and heavy engineering. Affected areas have been Ostrava region, North Bohemia region and the capital of Prague. Always it concerned the providing the necessary number of labour forces (the unemployment did not exist), corresponding housing and infrastructure development, but also production tasks.

Appropriate Ministers have been directly responsible for these matters. In the Czech Republic, it has been discussed since 1990 how during the transformation process of the economy, it is important to define the aims of regional policy. Experiences of European countries with market economy have been used and, very simply said, it was possible to say that the priority (or main goal) of regional policy is the reduction of territorial unbalance of economic activities. Naive ideas that the basic goal of regional policy is to support balanced development of all regions failed.

Nowadays we generally understand by regional economic policy the activities of the state and of its authorities supporting the effective function of the market on the territory of the republic, taking into consideration the regional dimensions of the economy.

The sense of the regional economic policy is to have a market effect through conformable instruments for the support of new development activities in regions with:

- a) lower long-term economic productivity,
- b) where, because of the structure of economic activities, the course of transition to the market economy has unfavourable effects,
- c) which are affected by strong structural changes.

Regional economic policy is oriented at regionally differentiated stimulation of economic supply of the region mostly by:

- a) direct support of enterprises (including private providing of public services),
- b) support of infrastructure construction which make the region more attractive for business.

The logic of regional economic policy is not a mechanical redistribution of resources produced in more productive regions to backward regions. The criterion of regional support, is in the first place, economic efficiency. Means are expended on the development support of a region, which can function for long time without further support, or they are used to initiate economic activity within a region.

Measures of regional economic policy are focused only on the initiation and attraction of business activities which must prove and defend long term competitiveness without state assistance. Regional support concerns mostly a priori non-defined subjects within supported regions, this support is always limited in time and is implemented on the basis of common participation and responsibility of entrepreneurs, regions or municipalities.

The objectivity of submitting projects (business plans on entrepreneurs side, infrastructural projects on municipalities or regions side) and the reality of their effects must always be supported by majority financial participation of proposers or crediting financial institutions large companies ought to be only exceptionally the recipient of the support.

The condition for functioning of a regional policy is a permanent statistical investigation and estimation of economic and social development according to particular territorial units. The initial task of regional economic policy is the exact definition of regions with problems from the point of view of typology and territory (economically weak, structurally affected and frontier regions) by means of relevant criteria representing especially labour markets and the demographic situation, living standard of the population and the economic level and regional structure.

The second key task of regional economic policy is a choice of instruments by means of which will be implemented the support of regions with economic problems. For these purposes there are following basic instruments:

- softening of credit conditions,
- guaranties for commercial credits,
- capital relieves – prompt write-off,
- advantages when reinvesting the profit,
- capital grants,
- tax relieves,
- retraining subsidies,
- public orders,
- information and development studies support,
- special measures can the decentralisation of national authorities and institutions.

Regional economic policy measures can't be so considerable to block or limit, in significant way, free effective movement of labour and capital and this conservative regional structure of production factors. On the other hand, the position of regional economic policy has to be "strong" enough to be able to prevent a dangerous rate of differentiation of economic and social level between regions.

There is no direct need for single law about regional policy to implement regional economic policy in this way. Activities considering within this conception are basically covered by the Law of small and middle-sized enterprise support (but in case of infrastructure development support, when the recipient can be municipality or region, the Law would be supplemented to reflect this possibility). It depends on Government decision, in which programmes will be implemented, additional regional criterion, or which new special regional support programmes will be announced by the Government and which means of state budget will be provided for these activities.

Besides governmental regional economic policy drafted in this way, there is a closely joined but separate (out of this concept) block of activities of other authorities with significant regional impacts and they are implemented within the framework of the competencies of these authorities. Appropriate authorities within the framework of their budget chapters or by means of state funds, contribute to the reducing the disproportions in spacing public sector facilities out and at the same time they respect principles of rational territory organisation.

The important precondition and condition of regional economic policy implementation is the existence of solid, transparent rules within the framework of tax and subsidy policy which would set up the basis for rational, from the economic point of view, local authorities' decision making.

At the Ministry of Economy of Czech Republic there is an Advisory Board of the Ministry of Economy which will co-ordinate the measures of particular authorities, accord measures of state authorities and local authorities and territory authorities in the field of economic policy, infrastructure development and environment creation, with the aim of supporting regions with economic problems, but at the same time, this Board will not interfere in the competencies of particular bodies.

In the Czech Republic, there were defined regions with economic problems and potentially structurally affected regions. The regional economic policy instruments, I have spoken about, should be implemented just in these regions.

The principles of the regional economic policy of the national Government are based on principle about regional economic policy. The regions themselves point out social problems, complicated social situation in some regions. But according to the regional economic policy of the Government, the tackling of social problems, the aid to socially weak persons who have no ability or opportunity to help themselves, this all is the matter of social policy.

One of the main problems of regional economic policy of the Government is the fact that it commands only over limited resources to ensure the goals of regional policy. There is a question, to which extent and with which efficiency it is possible to make regional policy without money.

I was speaking about the regional policy of the Government. Of course, they are regions themselves who must tackle their own problems. The situation in the Czech Republic is more complicated, because according to the current administrative organisation of the state there is an absence of the region. The structure according to self-government is dual, republic and municipalities State authority, operates also in districts.

As there exists a strong feeling of need for an interlink between municipalities and the republic (infrastructure questions, environment, differentiation in settlement func-

tions), various voluntary associations come into existence. For example, there are regional unions of cities and municipalities, economic and social counsels of regions and so on. Their task is to co-ordinate tackling the tasks of a supra municipal character.

How regions tackle their problems, themselves, we can see in the example of North Moravia and the Upper Silesia region, where live about 1.2 million inhabitants.

Diagnoses about the state of the economy, social and ecological situation of the region was elaborated by our institutions, or with the assistance of foreign institutions and PHARE. On the basis of the diagnosis a package of strategic targets and development programmes was worked out. The elaboration of projects and feasibility studies has been created, among others by means of the PHARE programme and the Regional Development Agency, the main task of which is to ensure the elaboration of running projects. At the same time, by means of PHARE, the Regional Investment Company (RIC) is going to be created, which should support small and middle-sized enterprises. Important enterprises within regions have been elaborating projects which, we suppose, will very soon ensures their privatisation. This process ensure stabilisation and economic development of small and middle-sized enterprises. In our region, we are persuaded that through implementation of strategic aims and programmes and by exploitation of stimulating instruments of governmental regional policy, we will put the region on the course of economic growth. And it is clear, that for the region going through the phase of economic conversion, it is not simple matter.

PART THREE

**CHANGING REGIONAL STRUCTURES AND
ECONOMIES**

15 THE BANKING SYSTEM AND REGIONAL DEVELOPMENT IN HUNGARY

IVÁN ILLÉS

The structure and functioning of the banking system is generally an essential factor in national and regional economic development of Central and Eastern Europe. Industrialization and the development of technical infrastructure (railways, telecommunication) in the period 1850–1950 would have been impossible without the role played by banks and other financial institutions. The reason for this lies in the specific characteristics of Central European banking systems.

The financial literature divides banking systems into to different groups: Specialized and universal banking systems.

The specialized banking systems can be found in Great Britain, in the Commonwealth countries, in Belgium and since the Great Depression 1929–33 in the United States. Universal banking systems were characteristic to continental Europe: Germany, Austria, Switzerland, Poland, Czechoslovakia and Hungary.

Specialized banking systems have emerged in those countries, where the process of industrialization and capital accumulation started earlier, has been a long process, so that the principal source of financing new investments and developments has been the own accumulation of the firm, the financing through debt played a secondary role. In these circumstances the most important requirement was the security of deposits which had been accumulated during a long time period. consequently banks have been and are strictly specialized. Deposit taking banks are not allowed to make loans to risky enterprises or to issue and purchase common stock except their own ones.

Universal banking systems, on the other hand, arised in later industrializing countries. In these countries the firms own accumulation was not enough, to finance rapid industrial and infrastructural development. There was a need to collect all the available saving in the country an utilize them for industrial and infrastructural development. This function has been carried out by universal banks, the so called "Credit-banks." These banks combined all the banking functions in one institution. they collected deposits, affered short-term working capital and long term investment loan, they invested into securities and acquired equity participation in industrial an other enterprises. They represented the intertwinning, the melting together of banking and industrial capital, the so called "Finanzkapital" so characteristic to Germany.

Of course the combination of short term deposit taking and long-term loan offering in one and the same bank is a rather risky development. it involves the danger of financing long term assets by short term liabilities, and by this way the change of financial defaults. And in fact it happened during the Great Depression in 1929–33

when a number of banks were unable to repay deposits. This was the event which induced Americans to change their mind and to turn from universal to specialized banking system. Despite these setbacks, dangers and disadvantages universal banking system played a decisive role in the rapid industries. In absence of significant accumulations by the firms, loans and banks' participation in industrial equity constituted the only way to finance industrial development.

Hungary, following the pattern of Germany and Austria, applied the universal banking system in the second half of the 19th century. Big Budapest and foreign banks financed a large part of industrial and infrastructural investment projects.

Another factor according to which banking systems can be differentiated is the role of branches, branch banking.

One type of banking systems is where branch banking is strictly restricted. The prototype of these systems is that of the United States where up to now establishing a branch bank in another state of the US. is almost impossible but branching even within the same state is rather complicated. But his practice has not been specific only to the United States, in the first half of this century many European countries regulated rather strictly the establishment of new branches of banks.

The other type is the present European banking system where within a country there are practically no barriers of establishing new branches, but even between individual countries these barriers are gradually abolished and big banks have hundreds of branches throughout Europe home and abroad.

Hundred years ago the Hungarian banking system could be characterized as a universal system, having no branches practically in the capital, Budapest. A couple of big Budapest banks held 54 per cent of the total assets of the banking system.

But parallel with this Budapest overcentralization there were in 1910 1,429 banks and 2,742 cooperative banks scattered throughout the provinces. This locational pattern is in sharp contrast with the present situation, when there is only one bank in the whole country headquartered in the provinces.

The regional distribution of banks and bank assets reveals many important features of the regional structure of the Hungarian economy in those times.

The high concentration in Budapest has been already mentioned. But second to Budapest the highest per capita level of banking assets and deposits could be found in the Great Plain region and in its fringe areas. The largest provincial banking centers – in the present territory of Hungary – could be found also in the Great Plains. It reflects – by all probabilities – a higher per capita income in this region than in other parts of the country. It is also a great difference compared to the present situation, where the Great Plains belong to the low income regions of Hungary.

Transdanubia had the third place, the North (now Slovakia) the fourth, while Transylvania the last place in the rank according to per capita banking assets and deposits in Hungary before World War I.

However the role of banks played in the economic development of their respective regions did not correspond to the ranking according to assets. The reason for this was that the lending and investment strategies of the banks of the regions was significantly different.

While banks and saving banks had their assets in the securities of big Budapest banks, and firms, ethnic Slovakian and Rumanian banks in the North and in

Transylvania borrowed their assets to local entrepreneurs supporting by this way local economic development. Savings co-operatives lending to their members emerged primarily in ethnic German areas (in the Banat and in Transylvanian Saxon areas) and the two provincial farmers' mortgage institutions had been established also in ethnic German cities (Sopron-Ödenburg and Nagyszeben-Hermannstadt). Consequently banks contributed to a lesser extent to local economic development just in the Great Plains in ethnic Hungarian regions.

The structure and functions of the Hungarian banking system changed radically after World War I.

Before World War I there has been no branching practice in Hungarian banking. All provincial banks were independent firms. But after World War I the economic situation deteriorated dramatically. Most small provincial banks could not survive, many of them became bankrupt, others became branches and filiales of big Budapest banks. The number of independent banks decreased radically. It doesn't mean that provincial cities wholly lost their significance as financial centers. Branches of big banks namely performed many financial servicing functions which had been performed before by bank headquarters.

Changes after World War II have been even more radical. State socialism and planned economy abolished all commercial banks and created a one-level banking system. In this system:

- all firms had to have their accounts at the National Bank of Hungary. All transactions have been carried out by the central bank,
- beside the central bank there existed one National Savings Bank performing alone financial services for households. From 1958 on there arose a number of rural savings cooperatives.

But actually the financial system generally, and the banking system particularly played a subordinated role in the economy, compared to the reallocation function of the central planning system and budgetary system. The principal reallocation functions have been carried out by the planning and budgetary system. Credit and loan instruments had been confined to those sectors where state property was not the dominant form of ownership. These were:

- agriculture,
- housing and housing construction.

Paradoxically, by being confined to specific sectors, the lending activity preferred rural areas transferring urban resources and savings to less developed areas in the period 1956-1990:

- agriculture was during the whole period net borrower having a low rate of profitability and consequently unsatisfactory internal accumulation. Agricultural loans had preferential interest rate and repayment conditions and several times the debt of agricultural co-operatives and state farms had been rescheduled or released at all. In sum agricultural areas benefitted from the credit system;
- while in urban areas state housing construction and state ownership of tenement-dwellings was the dominant form, in rural areas family owned houses and private housing construction dominated. Urban state owned housing has been provided almost free to selected tenants, while others had to wait for decades (number of

studies had proved that political loyalty and “merit” considerations played at least an equal role as social conditions in selecting future tenants). meanwhile in rural areas preferential housing construction loan was the principal means of support for housing. This loan had also extremely preferential terms and by this way urban households’ savings had been transferred to rural areas in order to support housing construction.

Consequently during the decades of state socialism (communism) the functioning of the overcentralized banking system benefitted rural areas not so much deliberately, but rather determined by the functions given or rather left to them. On the other hand it has to be noted that it was not more than a tiny compensation for the adverse redistributory functions of central planning and budgetary reallocative practices benefitting industry and urban areas.

The year 1987 denotes the beginning of a new period in the history of the Hungarian banking system. In that year the two level banking system has been created or rather recreated in Hungary. Unfortunately, however, this new institutional structure, because of inadequate decisions, has been doomed to failure from the very beginning:

- in the preceding period already a huge sum of bad debt had been accumulated by the central bank. These bad debts had been simply transferred to the new commercial banks, seceded from the central bank,
- the requirements for reserve capital and working capital are quite different by a central bank and by commercial banks. Consequently the initial reserve capital given to these banks has not met by far the requirements necessary for functioning as a commercial bank;
- in contrast to the Hungarian traditions not a universal but a specialized banking system has been created. Since, even previously deposit taking functions from households, from small entrepreneurs and from local governments had been allocated to the National Savings Banks, having a large branch network to collect the deposits and handle households’ savings-books. The new commercial banks neither had the necessary branch network, nor the affinity and skills to collect households’ savings. Consequently the banking system has been divided into two parts. On the one side there were the new commercial banks networks, but burdened with huge bad debts. On the other side there were the deposit taking banks with adequate branch network, but without any relation to the entrepreneurial sphere, and without any experience of lending to firms. The two sides met at the interbank market increasing the interest margins to irrationally high levels;
- finally all banks had their headquarters in Budapest, giving very little or no autonomy to branch managers and by that way centralising financial decisions to upper levels similarly to the practice of central planning.

Because of the economic situation the direction of net credit flows have turned back as well disfavoring less developed rural areas:

- the profitability of agriculture deteriorated dramatically and – after abolishing obligatory sectoral credit contingents – no bank is ready to offer loans to an agriculture, unable to repay its accumulated debts;

- housing construction diminished a fraction of its past level. In addition, with the application of "stick and carrot policy" (offering big preferences for pre-term repayment of loans on the one hand, and promising huge interest rate increases for those who do not repay, on the other) government forced households to repay earlier their housing construction loans. Consequently net cash flows turned back from rural to urban areas.

The principal regional problems facing now the Hungarian banking system are now the following ones:

- how to achieve competitive situation in the market of households' banking services, especially in provincial and rural areas. Now the National Savings Bank (OTP) is in a monopolistic situation in provincial urban areas while saving cooperatives have monopoly in rural areas. The new commercial banks - at least in the short-run - are unable to establish a competitive branch network comparable to that of OTP. The other solution would be the division of OTP into two more deposit taking banks or transferring a part of its branch network to the commercial banks, created in 1987. This solution however involves the risk to dissolve the only financial institution in Hungary which is - by international - big and strong enough to survive and to be privatized;
- how to achieve that locally accumulated capital be invested - at least partly - in the region? Many people think a locally founded and locally owned bank could be a useful instrument serving this purpose. But to establish now a regional bank is not an easy task. Starting equity capital requirements are rather high (one billion forints, HUF) and one owner's share is maximized in 25 per cent. Local entrepreneurs financial strength is - by far - not enough to collect this sum of money, local governments are - on the other hand - not in cooperative, but sometimes in confrontative relation to each other. The participation of central government is most unlikely, the legal provisions for the participation of foreign capital in the banking sector are not yet elaborated. Consequently all initiatives to establish a locally owned and headquartered bank have failed so far;
- how to form central and local governments relation to banks. At present central government budgetary institutions hold their accounts at the National Bank of Hungary, local governments and their institutions hold their accounts at OTP. However NBH should be transformed to a classical central bank, having no commercial bank functions. On the other hand OTP is one of the main creditors of central government charging high interest rates loans, while taking deposits from mostly centrally subsidized local government paying minimal interest rates for them about 14-15 billion HUF. In this situation the question obviously arises: would it be more reasonable to establish a government owned network of treasury outlets (payments' and cash offices) to handle government's money or to establish government and/or local government owned bank primarily for government's transactions and for handling government's temporarily surplus money. The issue is not yet settled.

To summarize the findings: it is certain that Hungarian banking system has to face big challenges and will undergo basic transformation both functionally and regionally - in the next decade.

16 BUDAPEST'S CHANGING POSITION IN EUROPE AND HUNGARY

GYÖRGYI BARTA-SERGIO CONTI

Budapest's changing position in Europe

Budapest in comparison with Western European metropolises

Scholarly interest has been turning towards urban networks especially in recent years. The spectacular failure of the growth-pole theory has brought about a new concept attempting to locate prosperous regions of economic growth, core areas of economic development in the network of metropolises. This had initiated a revival of research in urban systems (*Demszky et al.*, 1993; *Pred*, 1977; *Conti-Spriano*, 1989). The Eastern European urban network however, just as Eastern Europe as such, was left out of these broad spatial inquiries. Studies on Eastern European urbanity have been limited to comparative case studies of individual cities, or to the analysis of a partial problem.

Thus the research that has been conducted for a couple of years now with the support of the G. Agnelli Foundation seems to be quite original. This research intends to compare metropolises of more developed Eastern European countries – Budapest, Prague, Warsaw, Bratislava, Cracow, Poznan – with each other and with metropolises of Western Europe. In addition, it studies the model transformation of these Eastern European cities. We are going to rely on the partial results of this research not yet concluded, to demonstrate Budapest's relative position in Europe.

Western European urban features of Budapest

The recent trend towards a *decreasing population* in Budapest is not unlike that experienced in other Western European cities (the research has mainly studied Western European, middle-sized cities of secondary importance). The population of Western European metropolises is generally diminishing in number, among which the decrease in Turin, Lyon, Glasgow or Liège of 9–10 per cent is far more noticeable than that in Budapest of 2.1 per cent registered between 1980 and 1990.

The *employment structure* of Budapest's population is also quite similar to Western European examples, the share of industry is average, the proportion of employees in the construction industry and public transport slightly exceeds the Western European average, the number of workers in the tertiary sector is small, although not significantly so (*Table 16.1*).

Budapest's increasingly open metropolitan character is also underscored by the number of international exhibitions, foreign students, visitors from abroad, international flights not much behind similar Western European indicators.

Table 16.1

Employment structure of a few European metropolises, 1990

City	Share of employees in industry, %	Share of employees in tertiary sector, %	Share of employees in construction industry, %	Share of employees in transport, %
Frankfurt	30	70	4.3	13.9
Stuttgart	38	61	5.2	6.3
Liège	28	65	6.5	6.4
Amsterdam	20	80	6.3	7.9
Rotterdam	22	78	5.9	18.1
Birmingham	37	62	4.3	5.3
Glasgow	27	73	7.2	7.0
Grenoble	36	64	7.1	4.7
Lille	36	63	6.8	6.3
Lyon	36	63	7.5	7.6
Strasbourg	29	71	6.2	8.4
Toulouse	28	71	7.8	7.7
Geneva	23	74	6.0	11.3
Milan	31	62	6.3	5.1
Turin	44	52	5.0	4.4
Barcelona	44	55	3.4	7.7
Budapest	36	61	8.8	10.4
Prague	37	61	11.9	7.7
Warsaw	42	57	11.1	6.7
Cracow	46	53	17.1	4.4
Bratislava	35	64	11.7	7.3
Poznan	46	53	10.2	7.0

Source: Conti, 1993.

Budapest's specific Eastern European features

We would like to focus here on the marks left by the Eastern European socialist model on the city rather than on the peculiarities of tradition or the symptoms of backwardness. Similarly to other Eastern European metropolises, *the share of the active population is remarkably high when compared to usual figures for Western European cities*. With growing unemployment and slow disintegration of the socialist era's family structure, which had two active members, the level of activity is going to approach that of Western Europe (Table 16.2). Unfortunately, the relatively low unemployment rates in Eastern European metropolises, including Budapest, are going to be temporary.

Numbers and proportion of university students are fairly low, more a nation-wide feature, despite the fact that the overwhelming part of higher education is concentrated in Eastern European cities, especially in capitals, in contrast to Western Europe. (It

must be added that this is only valid for those actually attending universities due to extremely difficult entrance examinations. With respect to the number of graduates, Budapest belongs to Europe's best.). Meanwhile, scientific research activity is significant which especially in Hungary has been concentrated in the capital. There is a spectacular difference in favour of Eastern European metropolises with respect to the quantity and activity of cultural institutions.

Table 16.2

*Employment levels and unemployment rates in a few
European metropolises, 1990*

City	Share of active population, %	Rate of unemployment, %
Frankfurt	48.5	7.9
Stuttgart	4.8	5.2
Liège	35.5	14.1
Amsterdam	37.8	10.7
Rotterdam	46.5	25.1
Birmingham	47.7	8.1
Glasgow	54.7	14.8
Grenoble	40.4	10.1
Lille	34.1	14.9
Lyon	41.9	8.4
Strasbourg	41.1	7.1
Toulouse	38.8	9.1
Geneva	45.9	1.9
Milan	46.5	6.1
Turin	41.1	11.4
Barcelona	38.1	24.1
Budapest	57.4	5.7
Prague	55.1	3.4
Warsaw	62.9	9.8
Cracow	45.7	1.4
Bratislava	54.9	6.9
Poznan	33.6	0.9

Source: Conti, 1993.

Ultimately, the investigation, which has applied the method of factor-analysis on 22 European cities including six Eastern European metropolises, sorted the most important features distinguishing cities into three basic factors. These are: process of internationalisation; structure of urban society; traditional urban functions – urban environment. On the basis of urban processes six typical metropolitan groups have

been identified that can also be regarded as elemental European city models: open cities with an increasingly international character (Frankfurt, Amsterdam); cities undergoing substantial reorganisation of structure and functions (Glasgow, Geneva, Birmingham, Rotterdam, Stuttgart); cities recently losing various functions, and, in contrast to the previous group, such lost functions are not replaced by new ones. (Liege, Lille); Mediterranean cities of slower modernisation (Milan, Turin, Barcelona); a specifically French model where the three factors seem to be in equilibrium (Lyon, Strasbourg, Toulouse, Grenoble); a socialist, or rather post-socialist model where the most significant factor is the one pertaining to social structure (Budapest, Prague, Warsaw).

This research has also isolated particularities that discern post-socialist metropolises from their Western European counterparts. It has called attention to the enormous discrepancy between Eastern European capitals and "second cities" (as a matter of fact, Hungarian experiences would have demonstrated the same phenomenon) (*Table 16.3*).

Budapest among Eastern European metropolises

Cities included in the comparative study were: Budapest, Prague, Warsaw and Bratislava, Cracow and Posnan. We have previously mentioned optimistic forecasts that see Budapest standing a good chance of assuming some kind of central role in Eastern Europe. Does the city really possess a potential that makes it capable of gaining an advantage over Prague and Warsaw?

Budapest is undoubtedly the greatest Eastern European metropolis, and the city size stands in a known correlation with qualitative features, given the concentration of urban functions of the city. The analysis mentioned above has also shown that, first, Budapest had managed to preserve many of its advantageous traditions, such as its vivid cultural life, or its relatively developed infrastructure (e.g. in urban public transport), and second, it seems that the capital did have a head start in modernisation over other Eastern European cities thanks to reforms that had been carried out thoroughly only in Hungary. (The concept of modernisation implies that Budapest's structure has approached the Western European model rather than that of other Eastern European cities.) *This has been manifested by the city's international openness and transformation of economic structure.*

We would like to use a few examples to substantiate this claim. There are twice and four times as many foreign students studying in Budapest than in Prague and Warsaw, respectively. The collapse of the Soviet Union and the disintegration of COMECON has resulted in a decline of relations between Eastern European countries. Trade between Eastern European countries is but a fragment of what it was before. The change in the number of flights in recent years serves to demonstrate that Hungary's Eastern European connections are still more intensive than those of the Czech Republic or Poland. Budapest's having the only international airport in Hungary strengthens its position in Eastern Europe further. The most convincing example is provided by the differences in receptivity of foreign capital in the countries studied. Approximately half of foreign direct investment has come to Hungary (*Table 16.3*).

Table 16.3

*Joint ventures registered in Eastern Europe 1988–1991.
Number of projects involving foreign firms*

	1 Jan 88	1 Jan 89	1 Jan 90	1 Mar 90
Hungary	102	270	1,000	1,000
Poland	13	55	918	1,000
Czechoslovakia	7	16	60	60
Bulgaria	15	25	30	30
Rumania	5	5	5	5
<i>Total</i>	<i>142</i>	<i>371</i>	<i>2,013</i>	<i>2,095</i>

	1 Jul 90	31 Dec 90	1 Jul 91	1 Nov 91
Hungary	1,600	5,693	9,100	10,600
Poland	1,550	2,799	4,350	5,000
Czechoslovakia	60	1,600	3,700	4,000
Bulgaria	30	140	800	800
Rumania	5	1,501	4,196	4,800
<i>Total</i>	<i>3,245</i>	<i>11,733</i>	<i>22,146</i>	<i>25,200</i>

Source: Dunning, 1991, using European Commission data up to 1 July 1990. DREE, 1992.

We would like to point out two interrelated circumstances of the economic transition of capitals: In all of the Eastern European cities examined, the number of employees in the tertiary sector has grown most rapidly in Hungary; and everywhere else, except in Bratislava and Posnan, less people have worked in industry. This tendency started in Budapest and Cracow as early as the beginning of the 80's, urban industry has undergone significant structural transformation everywhere, but it has been most widespread in Budapest, where the number of employees has been falling in every sector, whereas the amount of workers has increased in the chemical and light industries of Prague, contraction of industry has been insubstantial in Warsaw.

Future trends of Eastern European metropolitan development

In the final analysis, the comparative study suggests that the transitional processes of more highly developed Eastern European cities have been fairly similar since 1989, although there have been differences in pace and some other specific elements. The specifically "socialist" structure of the cities has quite radically disintegrated in the last few years, coupled with an evolution of new structures. The most important element of the latter has been the intensification of integration efforts. According to the author of the study, these metropolises have reached a *point of divergence*. It is not impossible to conceive the cities studied following different paths of development in the future. On the other hand, one might imagine that in the years following the change of political system these tendencies will come to a halt, the disappearance of socialist characteristics will continue, but post-socialist countries and, as a consequence, their

metropolises will isolate themselves once again, integration trends will slow down and become insignificant.

Change of Budapest's domestic position

There are three wide-spread publicly held views concerning Budapest's domestic position. The first focuses on structural differences, independent paths of orientation and development that separate the capital from the countryside, explicitly or not, underlining *Budapest's status as an enclave*. The second view treats the relation of Budapest and the countryside with a touch of hostility towards Budapest, *Budapest, the parasite*, that could eventually begin sapping the strength of the countryside. The third opinion conceives the relation of Budapest and the countryside within the framework of core-periphery links, as a single interdependent system whose elements cannot exist without reliance on their counterparts. The centre determines, or at least influences, peripheral progress, investment, production and consumption.

It is not hard to see that the three views are closely related, placing more emphasis on different elements or simply confounding cause and effect of the same reasoning. The centre does not become a centre because it is able to exploit the periphery, it is distinguished by its potential. Centres are settlements that possess conditions conducive to innovation and where innovation is created (Conti, 1993). Centres controlling and influencing the spread of innovation establish advantageous positions for themselves in the system of spatial relations. Disparities in levels of development occur between the settlements. Centres have independent paths of progress, owing to their special position they stand a better chance to seize new opportunities of development again and again. Still, it is true that centres are able to evolve further exploiting the periphery.

There are many possible questions to be raised concerning the role of Budapest in the country. Have traditional centre-periphery relations irreversibly disintegrated between Budapest and the countryside following the political-economic transition? Is it reasonable to claim that Budapest's trends of development lost touch with those of the countryside, and thus Budapest in the future will not be able to transmit fruits of its progress, meaning emerging innovations? Has Budapest's set of functions changed, that is has the nature of centre-periphery relations between Budapest and the countryside changed? Is an intensification of centre-periphery relations likely?

Regional split or polarisation?

The emergence of a new class of entrepreneurs (both foreign and domestic), the disintegration of the former state sector and the current economic modernisation (organisational and structural transition, technological progress) are all circumstances certainly to be appreciated as some of the most important elements of the economic transition process (Friedmann, 1972). This process has however run very different courses in Budapest and the countryside, various regions of the country, cities and villages. There are distinct territorial inequalities taking shape, particularly in favour of Budapest.

Budapest's concentration of new, private type enterprises is a direct continuation of the capital's dominance in the economy and semi-private economy of the 80s (Cséfalvay, 1993). According to the number of new economic associations, limited and

share companies per 10,000 inhabitants, Budapest distinctively excels over other parts of the country, and the discrepancies seem to have stabilised in recent years (Table 16.4).

Table 16.4

Number of limited companies, per 10,000 inhabitants

	1989	1991	1993
Budapest	52.3	44.1	45.9
Northern Hungary	6.8	6.5	6.4
The Great Plain	23.1	26.9	25.8
Northern Transdanubia	10.9	13.3	12.8
Southern Transdanubia	6.9	9.2	9.1
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>

Source: Nemes Nagy, J. 1993.

Budapest has been playing a very important role in receiving foreign direct investment (Table 16.5). Between 1989 and 1991, 76 per cent of all joint ventures were established in Budapest and Northern Transdanubia, whereas only 15 per cent in the southern regions and 9 per cent in Northern and Eastern Hungary. Since approximately half of foreign direct investment arriving in Eastern Europe preferred Hungary, Budapest has become the focal point of Eastern European capital movements. The reason for the latter is quite obvious: Budapest possesses an adequate infrastructure in the country, it has a broad and diversified labour market, and the complex economic background provides the best opportunities for the realisation of co-operation. In addition, all institutions whose permission and approval is necessary for the establishment and functioning of joint ventures are located in Budapest. Finally, demand generated by the capital's consumer markets is not to be ignored either.

Table 16.5

Distribution of joint ventures between Budapest and the countryside, 1991, per cent

	Number of organisations	Statutory capital	Foreign investment
Budapest	56.1	56.8	57.5
Countryside	43.9	43.2	42.5

Source: A nemzetgazdaság 1991.

(Nevertheless, the overwhelming majority of foreign direct investment located in Budapest is not that obvious. Joint ventures are only registered according to their company headquarters. In reality, activities of joint ventures with foreign investment are often moved to branch plants in the countryside. Hungarian data are not that out of line by international comparison, e.g. 80 per cent of Portugal's foreign direct investment is concentrated in Lisbon.)

Foreign capital prevails in privatisation, thus also conditioning regional trends of privatisation. Domestic capital is of secondary importance in privatisation. It has gained significance mainly during pre-privatisation and compensation, also in backward, crisis-stricken or rural areas and border regions. Domestic direct capital is hardly able to contribute to spatial stabilisation and regional economic modernisation due to its insignificant size and dispersion.

A painful consequence of the economy's contraction and its radical restructuring is *unemployment*. The regional distribution of the latter is another unmistakable indication of territorial inequalities. In 1992 the lowest rate was achieved by Budapest at 5.3 per cent, while villages have registered 17.5 per cent, county seats 9.8 per cent and cities 10.8 per cent. There is a number of explanations for the fairly low rate of unemployment in Budapest: larger companies with seats in the capital have first shut down their branch plants in the countryside, lay-offs have hit commuters worse than local inhabitants, but new enterprises and new job opportunities created by economic restructuring have also been proliferating in the capital.

Economic restructuring is accompanied by the lesser or greater contraction of economic sectors nation-wide. (More precisely, contraction of industry and agriculture is coupled with a smaller reduction in the number of employees in the tertiary sector.) Only Budapest stands out with its slightly different position: Recent years have shown an increase in tertiary-sector job opportunities in Budapest.

In the final analysis, it can be concluded that economic trends following the transition have resulted in regional differentiation, moreover, in territorial polarisation. The capital, the Budapest agglomeration and North-western Transdanubia have become Hungary's prosperous regions, whereas the handicap is greatest in North Hungary and the north-eastern part of the Great Plain. In my opinion, these trends will not lead to a regional splitting of the country, but rather to the increase of territorial differences, and, as a consequence, to the strengthening of core-periphery relations.

Changing nature of centre-periphery relations between Budapest and the countryside

Budapest's "distributing role" is linked to the system of redistribution. During the four decades of the socialist era the "distributing centre" function has endowed significant advantages on Budapest. An infrastructure of the redistribution mechanism was created benefiting the local population as well (radiant traffic network, development of transport and telecommunications, etc.). It was an advantage to be near to places of decision making, extending possibilities for access to information, or sometimes it was even possible to influence the decisions themselves.

At present, the state is intending to withdraw from the economy, and thus redistribution will gradually lose importance. Nevertheless, the capital's distributing role will be maintained, if only in a limited sphere of influence, and this role will continue to benefit Budapest in the long-run. Quick access to information, personal connections are held in higher esteem in a market economy.

A spectacular trend towards decentralisation can be witnessed in the field of *industrial control*. Budapest's unique role as an industrial centre has represented the concordance of independent interests of large companies with local seats from the end of the 1960s. Approximately half of all industrial employees held jobs in industrial

companies whose headquarters were in Budapest around the beginning of the 1970's. Organisational restructuring of industry is mainly to be attributed to the transition process. It has been driven by disintegration of large companies, compulsory transformation of company organisations, and the great number of newly forming small enterprises (currently, 21 per cent of industrial workers are employed in the capital, and 35 per cent of industry is controlled from here). Meanwhile, new countryside centres have not gathered strength, and prospects of new industrial regions have not unfolded either. With slight exaggeration, one might say that the capital has marched out of countryside industry (branch plants of companies with Budapest headquarters have been reduced by 29 per cent, employees by 50 per cent between 1989 and 1991). Core-periphery relations generated by factors of industrial control have become less close between the capital and the countryside.

An important part of Budapest's labour market is constituted by commuters. In 1990 as much as 18.1 per cent of all jobs in Budapest were occupied by commuters. Budapest is the most important centre that *attracts labour*. Between the last two census the number of commuters to Budapest remained stable, while commuting was in a remarkable decline in other parts of the country. New surveys of the Budapest agglomeration band indicate however that the amount of commuters has been decreasing in the past two years. This can be attributed to the fact that the negative effects of economic transition have reached Budapest somewhat later, that is not before the beginning of the 90's.

Nevertheless, there can be no doubt that the economy of Budapest will continue to rely heavily on commuters from the outskirts of the city, just as the population of the agglomerational band will need job opportunities in Budapest. It is likely that the intensity of commuting will continue to diminish at the same rate as Budapest's economy contracts.

Budapest's exclusive role in finance is a function of its rapidly growing reputation. One of the most spectacular processes of the transition from one system to another was the revitalisation of banks, their expanding sphere of influence, their multiplying number. Only one bank was allowed to function during the socialist regime, the Hungarian National Bank worked with a seat in Budapest and a network of branches in the countryside. There are dozens of larger and smaller banks registered, all having a seat in Budapest. Attempts to found a regional bank have failed until now, partly due to the explicit reluctance of banks in Budapest, partly because of the weakness, lack of independence and capital of the countryside's economy. Banking is still the most centralised branch of the economy with a definite centre in Budapest. Present studies have shown that countryside branches of Budapest banks have much less room for making independent decisions than branches of county seats during the socialist period. Similarly to banking, the network of insurance companies is also highly concentrated. We could mention the stock exchange as well, operating only in the capital.

These few examples are meant to illuminate Budapest's central role, the list could be continued with other factors in which it fills a key function, such as generating innovation, education, scientific research, cultural life, other fields of services, political life, etc. Our research confirms the assumption that Budapest's position in the country is changing, traditional core-periphery relations are less close, new links are being established following the dynamic transformation of the economy. Accelerating

polarisation, an accumulation of progressive economic factors might enable Budapest to fortify its central positions in the future.

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17 RESTRUCTURING IN RESOURCE COMMUNITIES: EXPLANATIONS IN DIVERGENT SCHOOLS OF THOUGHT

MARKKU TYKKYLÄINEN

Introduction

Economic shocks, technological progress and institutional changes are leading to a renewal of the structure of production and associated settlements in various countries with different economic contexts. Restructuring is taking place in the Hungarian puszta just as well as in the Australian resource boom towns or the scattered villages of Finland. Now there is a rising demand for explanations for this process, and various attempts have been made to conceptualise it using spatial concepts such as "periphery" or "non-metropolitan" or "rural areas". The term "resource community" has been introduced to provide a starting point for such processes of explanation and to take into account the characteristics peculiar to resource industries and their accompanying social institutions.

Aim and concepts

The purpose of this paper is to examine briefly the coverage of the socio-economic and spatial restructuring of resource communities in the theories applied to the subject. The contribution of these theories is analysed with the purpose of finding an order within the numerous attempts at explanation and to study their feasibility.

The term "resource community", is familiar from studies of the resource frontiers, i. e. remote settlements that gain their livelihood from mining, agriculture etc. (*Brealey et al.*, 1988). In general terms, a resource community is a settlement or social entity in which living is made in the industrial and/or service sector by extracting, processing or supplying natural resources, or their non-material values, for the benefit of the global system of production and consumption. A resource community may be a compact or scattered village, a commune or town, or a subdivision of one of these. A resource community can also consist of a network of social entities split into several localities but with a shared interest in the resource business in which they are collaborating. The tie forming the resource community is a common economic basis and social network rising from these economic activities.

Economic and social structures and the physical shape of communities vary, and are all faced at the present time with restructuring. The concept of restructuring refers to structural changes in society (*Friedmann*, 1991; *Storper-Walker*, 1989). This restruc-

turing process, caused by economic upheavals and individual and social responses to them, leads to new forms or arrangements in communities. The establishment of new enterprises and factories in a small town, for instance, very often reduces unemployment, attracts in-migration and increases the demand for housing, thus renewing the physical and social structure of the town. The old economic and social structure will be gradually replaced by a new one. Restructuring is especially associated with rapid qualitative changes in a community, e.g. the closures or new industries emerging rapidly in the community. In general, the communities are transforming their structures and functions in the face of external impulses and local responses.

Communities are faced with different outcomes of this restructuring. Development can be "balanced", often meaning low unemployment and migration rates, or the diversification of the local economic sector may occur. Expansion of the basic sectors may create an economic boom in the community, or the community may be scaled down. At the same time new communities are emerging and new types of community are arising. Thus resource communities are involved with adaptation and innovations in their structure.

Four viewpoints: universal, space-related, sectoral and the policy approach

There are several viewpoints on restructuring, and the explanations have different emphases. Four viewpoints, i. e. universal, space-related, sectoral and the policy approach, seem fundamental (Tykkyläinen-Neil, 1993). Firstly, development is interpreted as being more or less general or global, or even *universal* or law-like in some approaches. The propositions often deal with a market economy, e.g. business cycles, changing patterns of consumption and profit maximisation are considered to be general and to have certain spatial effects. These generalisations are based on the universal, nomothetic nature of the events. A geographical space is independent of the historical content of society.

Secondly, there has been a rise of *space-related* approaches which emphasise locational conditions, opportunities and policies. These explanations are related to spatial uniqueness and socio-economic processes in situ. The responses to the pressure of restructuring are dependent on specific local features, e.g. labour skills, local entrepreneurship, communications, the industrial mix, the opportunities to exploit the resource endowment, etc. For example, when certain local resource reserves are depleted, the locational conditions will vary so much that some of the communities may survive without serious hardships while others will fade away in spite of support from public funds.

Thirdly, development varies from one industrial sector to another, some industries growing and creating new communities and some declining and causing a need for reallocation of human and capital resources. Upward and downward swings in the market for certain raw materials create opportunities for profit-making and cause closures, and innovations mean the replacement of previous production processes and products. Thus *sector-specific* factors contribute to the development of communities.

Finally, the local development scheme, often including individual and company responses, is the fourth dimension. The development scheme may be carried out by the company, local authorities and individuals, and it is thus *policy-related* at the different levels. Individuals operate as such or in a group, and they make choices regarding the

future. They make the rules of capitalism by their own behaviour, and also introduce anomalies into it. This latter aspect of behaviour is increasingly gaining in emphasis in this fourth viewpoint.

The viewpoints arise from different backgrounds, disciplines and experiences of reasoning. The schools of thought in political economy, geography, regional studies and various branches of the social sciences are the main seedbed for different approaches. The way of looking at the restructuring problem diverges, because the schools of thought place different emphasis on the spatial relations and the economic structure is realised in different ways, causing different sectoral divisions, for instance. Thus the theories also cover the viewpoints in different ways. We will now go on to analyse how these four aspects are regarded in the development of theories.

The diversity of theories

The socio-economic restructuring of communities has been explained in numerous ways during recent decades, the explanations being mainly based on a heterogeneous set of regional development theories which describe social and economic activities in different area contexts. Correspondingly, the argumentation is highly diversified, and a wide range of discrepant approaches are adopted to explain the economic restructuring process. The variety of theories reflects the changing empirical reality, different intellectual environments and the evolution of theoretical ideas.

Development theories may be grouped into more or less coherent approaches or paradigms. The currently prevailing approaches are discussed below with respect to resource communities. Finally, an analysis is made of how the theories cover the main viewpoints on restructuring problems.

Equilibrium seeking. A resource industry operates by transporting raw materials and products. The availability of labour, energy and water is also crucial for operation, and the costs of these vary depending on the site. Spatial restructuring has brought about a response in terms of access to new raw material sources, shifts in demand and improvements in communications technology. In order to find an equilibrium in the market for production factors, certain theories assume that investments take place where the returns are highest and labour will flow from low-wage to high-wage regions (Malecki, 1991). In addition to the search for an equilibrium, the paradigm draws attention to the main aim of an enterprise, which is profitability, an approach which has often been applied at the level which describes the behaviour of firms (Hurter-Martinich, 1989), and which possesses some explanatory power in the case of resource developments. The basic industries operate as long as production is profitable, for instance, and then the outflow of labour and capital starts. The paradigm is deductive and generalises some universal tendencies in economic processes.

Technology and innovation. Innovations and progress in production technology are sources of restructuring, and these have been discussed more widely in recent years (Malecki, 1991; Davelaar, 1991; Hall et al., 1987; Stöhr, 1987). A flexible technological paradigm and an urban environment conducive to development have been regarded as engines in the new wave of development (Freeman-Perez, 1988; Brotchie et al., 1991). Innovations increase the productivity of labour, and such increases in productivity can often explain why resource communities need to move downstream in labour. There is empirical evidence that the growth of high-tech industries frequently

emanates from metropolitan areas and overlooks the hinterlands, but this may be an oversimplification in many cases, because the modern resource industries are often complex technological systems. Thus any application of the theory needs careful elaboration.

Technology is changing entire societies. The new wave of development, as many authors put it, is introducing a transformation from an industrial to an information society that is having spatial consequences. The discussion has mostly dealt with urban patterns, networks and high-tech industries and some services (Masuda, 1980; Stöhr, 1986; Andersson-Strömqvist, 1988; Hall, 1985), but the resource sector is also faced with this transformation, mainly through more sophisticated technology, remote control of operations and evolving settlement patterns. Advanced technology can also create opportunities for maintaining the population in rural areas (Bar-El-Felsenstein, 1989; Oakey-Cooper, 1989), however, so that the trend is often being reversed.

Global capitalism. There are various theories that describe the global process of the accumulation of capital and its implication for the spatial organisation of production (Wallerstein, 1974; Fröbel et al., 1980; Thrift, 1986). The development of a particular region is a result of a combination of its changing role in the global economy and the distinctive history and resource endowment of the region itself (Massey, 1984). The interpretation that the entire vertical process of production, from resource extraction to the final product, is being subdivided into fragments which are assigned to whichever part of the world can provide the most profitable combination of natural resources, capital and labour, appears to be relevant, as resource companies are becoming trans national. These like many mining companies, are looking for profit on a global scale, as the theory assumes.

Regulationism. Regulationist theories argue that the main forces for socio-economic changes occur within national economies. The basic idea is that the world economy consists of relations between national economies, and is shaped by the national basis rather than by rootless capitalism (Aglietta, 1979, 1982; Liepietz, 1986). Regulationists emphasise that structural changes can be explained by the mode of production and by shifts towards new modes. Changes in the methods of production and in the way labour was organised in the 1970s and 1980s, for instance, led a move from Fordism to neo-Fordism in production systems, which had an effect on societies and the geographical pattern of production. The regulationist approach also has certain applications that arise from the strategic nature of many parts of the resource sector. State control of resource businesses is justified in terms of national interests, and approval by the public authorities and consideration of public interests are the ultimate regulators in many development projects.

Along with advances in production paradigms and with state intervention, the traditional modes of resource extraction and production are under pressure to renew themselves and are facing a spatial re-organisation of resource production. Communities are outcomes of "flexible accumulation", "recycling of regions" and geopolitical struggles (Harvey, 1982, 1987; Soja, 1989). The regulation of production or prices and the introduction of subsidies can lead to a re-organisation of the production structure. Changes in regulative practices lead to restructuring in resource communities. This restructuring may be dramatic as artificial pricing and regulations are reduced, a major issue in agriculture, for instance.

Institutionalism. Restructuring also results from the cultural basis of society. In addition to values, attitudes and cultural heritage the pattern of power and authority in a society is a fundamental condition for development (Friedmann, 1973). Resource industries and their geographical patterns are affected by the cultural environment of the society, so that hostile attitudes towards resource businesses or heavy bureaucratic practices, for instance, may hinder the penetration of a resource industry into a region or country (O'Neil, 1992). On the other hand, socio-personal characteristics and motives may influence decision-making in resource sectors, e.g. farming (Ilbery, 1978).

Resources and the physical environment. The location of a natural resource limits the opportunities for basing resource businesses on it, while the threat of natural hazards invites risk assessment approaches. Climate, soil, access, location of deposits etc. are physical factors influencing the location of resource industries. The relationship between physical and economic margins is a complex and dynamic one, and constitutes a central issue within the approach. The physical environment has very different properties, however, which vary in space, and each resource has its own peculiar system of exploitation and occurrence on the earth (Miller, 1979; Cutter et al., 1985). There would be no production without surveys and a knowledge of the possibilities offered by nature.

Keynesian applications. Popular paradigms in the 1960s and 1970s emphasised growth centres, propulsive industries and multiplier effects (Darwent, 1969; Tolosa-Reiner, 1970; Hansen, 1972; Moseley, 1973; Buttler, 1975; Gore, 1984). These are at their best when used to analyse the short-term effects of a shrinking basic sector on the production level of the local economy. Some versions, such as the theory of cumulative causation, lead to somewhat mechanistic interpretations, but these ideas have certain limited applications for describing the effects of closures or investment booms. Many regional policy measures incorporating subsidiary and redistributive elements, containing rudiments of these theoretical constructions.

Product cycles. Theories consisting of the spatial manifestations of the product cycle explain economic activity within regions in terms of the knowledge requirements of production during its life-time. The product changes from being innovative, to being mass-produced and is manufactured in knowledge-intensive areas in its early phase and outside the cores in later phases (Norton-Rees, 1979; Dicken, 1986). Relocation processes are of minor significance in the resource industries, because the primary production system is mostly immobile and follows any rise or decline in the industry as whole. The vertical production process in the resource sector, however, from exploitation to final products, can be fragmented into sub processes and assigned to different localities. Subcontracting may occur, and shifts of the most advanced production technology from advanced industrial regions to hinterlands are more frequent than shifts in the opposite direction. On the other hand, resource companies are often very familiar with advanced technologies and process steering, and with serving as testing grounds for very advanced production (Liljenös, 1992). Spin-off is rare, however.

Supply-side policy. According to those who emphasise the role of supply side factors in restructuring, major rigidities in market conditions should be ameliorated and removed with the aim of creating a more flexible economy (Chisholm, 1990). Prices, exchange rates, incomes and the allocation of investment capital would all be determined by market signals (Welch, 1993). Instead of redistribution of the national

wealth between regions and communities, as practised in Keynesian regional policy, infrastructural investment, deregulation and an opening up of the regions to competition should be encouraged. The advantages or benefits of competition among countries is often the idea lying behind the argumentation. On the other hand, the opening up of new developments in resource sectors and improvement of the access of industries to exploitable the resources can be justified for business reasons.

The contribution of the infrastructure is an essential part of these discussions of the supply-side conditions of production. Factors such as transport costs, communications, access to R and D activities and labour skills, for example, have all been regarded as factors influencing development (*Andersson et al.*, 1990; *Vickerman*, 1991; *Stöhr*, 1986), although the role of metropolitan development is one of the main topics in these discussions (*Brotchie et al.*, 1991). Infrastructural factors such as roads and airstrips are crucial for remote resource extraction, and improved telecommunications create new management opportunities such as the remote control of distant resource operations, hydro electric power stations etc.

Human ecology and environmental management. Environmental management has its roots in the growing interest in applying principles arising from human ecology and environmentalism (*Hägerstrand*, 1993). Restructuring in resource communities is increasingly being influenced by public resource management, environmental control and environmental impact assessment (*Rees*, 1990). Legislation and penalties are implemented in order to improve the sustainability of the economic-environmental system, and at the same time, residential preferences are becoming increasingly sensitive to environmental factors that shape the structure of the community. Thus, resource decisions are influenced by environmental perceptions, attitudes, citizen involvement and environmental legislation (*Mitchell*, 1989). The debates over the safety of nuclear power, forest devastation, the recycling of paper, fishing rights etc. have an influence on the socio-economic development of society, and thus a certain body of theory describing and explaining people's relations to nature and the environment must be taken into account when explaining the restructuring of resource communities.

What is there in common?

The above illustration reveals that numerous approaches, conceptualisations and emphases exist and that the body of theory is amorphous. Each intellectual tradition covers the four viewpoints more or less explicitly, and each theory has its own standpoint and makes its own contribution to the settlement pattern. Because different schools of thought try to answer different questions, the problem is not so much one of deciding which is right, as one of deciding which throws the most useful light on which problems. Furthermore, the evolution of our economic system creates a need to develop and update our theoretical ideas that presents a continuous challenge.

But how can the approaches be evolved? The development of a theory has to originate from a statement of the problem that takes into account the variety of factors influencing restructuring. The variety of theories is a richness rather than a disadvantage, and there is space for a synthesis as attempted by *Storper* and *Walker* (1989), for instance.

The complexity of restructuring processes speaks in support of their explanation in resource communities within broad rather than narrow theoretical contexts. Because the resource system is global and receives impulses through the market, being dependent on the properties of space, having sectoral dissimilarities and being involved with public intervention and private actors, it appears that it is necessary to take each viewpoint into account in most explanations of the development of resource communities. The link between restructuring theories and the explanation of settlement patterns is obvious: the explanation of the settlement patterns obtains its economic elements from the theories of economic restructuring.

Conclusions

The diversity of schools of thought implies dynamism and competition in science in addition to the fact that the world around us is changing. Different theories cover different parts of the events and processes, and a division of theories into relevant and irrelevant ones is neither easy nor even sensible, as each theory can be supported under certain conditions. The challenge which renews our schools of thought is that new socio-economic processes are emerging and new questions have to be answered.

Many elements from different theoretical constructs are of significance to the explanation, thus in part explaining the restructuring of resource communities and the changing settlement patterns. Nevertheless, each explanation has its own starting point and path of reasoning. Since different theories cover different aspects of restructuring, new attempts at explanation should be cross-fertilised rather being nailed to one theoretical standpoint. A scientific inquiry is progressive when it is able to make use of intellectual traditions so that a valid explanation is found – renewing the sources of the explanation.

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18 THE CASE FOR DECENTRALISED INDUSTRIAL POLICY

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Introduction

Competitive pressures, European economic integration and changing patterns of work organisation are expected to have a substantial impact on regional economic prospects in the European Community during the next decade. Similarly, in the economies of Eastern Europe, the dismantling of centrally-controlled command economies and the break-up of large state enterprises are having a radical impact on the spatial structure of the economy. As a result, regional restructuring is widely expected to accelerate and this will have a profound impact on regional labour markets. These changes will call for innovative policy responses to forestall an exacerbation of regional disparities.

Transfers of resources, whether from international agencies such as the World Bank or the EBRD, national government or, for designated regions in the EC, from the EC Structural Funds, can help to cushion the impact of restructuring for regions in difficulty, but such measures tend to be palliatives rather than a means of transforming regional performance. Ultimately, what matters for regional prosperity is competitiveness, which can be defined as the ability to sell goods and services in openly competitive markets. This in turn will both influence, and be influenced by, success in attracting investment which has a choice of locations.

Work by *Porter* (1990) and others has sought to explain the relative success of some countries in establishing clusters of competitive firms in particular industries in terms of characteristics of the home economy. In the same vein, much recent work on regional policy has emphasised the importance of achieving restructuring by fostering indigenous development (*Albrechts et al.*, 1989, or the work on *milieux innovateurs* *Camagni*, 1991). A particular emphasis is on the importance of an explicit regional focus on R&D, innovation, high technology and advanced skills as sources of dynamic advantage.

In parallel, there is a growing recognition in the industrial policy literature that the changing character of production and competition places a greater weight on flexibility in the policy response and recognition of the specifics of company organisation and strategy (*Best*, 1990). This suggests that not only are there practical benefits from the exercise of the principle of subsidiarity in industrial policy, but that it is also likely that those local needs will be better identified and met. These issues affect the countries of Eastern Europe, notably Hungary, as much as those in the EC, so that the topic of decentralisation is a central one for the theme of this conference.

This paper assesses the case for a decentralised approach to industrial policy as the appropriate means to advance regional restructuring in a positive manner. It is argued that such policy has advantages in addressing both market failures and policy failures

which inhibit regional performance and can offer a fruitful way forward for regional development. The next section discusses the concepts of competitiveness and competitive advantage and the factors which influence them. This is followed by an introduction to the role of industrial policy in promoting competitive advantage, with particular emphasis on the role of high technology industries and processes. The next section examines the case for decentralisation of policy. Brief sketches are then presented of decentralisation in practice in a number of different contexts, and the paper is completed by some concluding remarks.

Conventional theory, competitiveness and competitive advantage

Economic theory is surprisingly unhelpful about how to assess competitiveness (see the discussion in Porter, 1990). The comparative costs approach, dating from Ricardo and as developed in models such as that set out in Isard (1960) remains the cornerstone of regional theory (as does the Hecksher–Ohlin–Samuelson model of international trade), yet it has little to say about why some regions or nations seem consistently to out-perform others. This lack of a convincing foundation in economic theory has been emphasised by Scott (1984) who maintains (for the US) that “we must compare our performance with (that of the East Asian countries), and we must recognise what that comparison says about the theory of comparative advantage on which our economic strategy is based. Once we understand both their outstanding performance and the theory on which it is founded, we will recognise that the United States needs more than better macro- or micro-economic management or an add-on industrial policy. It needs a national economic strategy that combines the best of all three camps”.

The implication is that new ways of thinking about how competitive advantage arises are needed. These need to consider how concepts in common use in the business world translate into industrial policy. For example, the so-called “experience curve” is a routinely used expression in management to describe the ability of a company to improve its performance, yet it plays little part even in recent developments in trade theory. Similarly, the desire by companies to position themselves in particular market segments and concentrate on “core competencies” is at odds with economic theories that emphasise perfectly competitive markets and easy entry or withdrawal from contestable markets.

A framework for understanding competitiveness can be developed from a variety of perspectives, macro- as well as micro-economic in character. For instance, in analysing the disappointing US economic performance, the MIT Commission on Industrial Productivity (Dertouzos–Lester–Solow, 1989) took a “bottom-up” approach to the examination of competitiveness. This was in deliberate contrast to the more usual focus either on macroeconomic factors such as exchange rates or relative unit labour costs, or on “economic environment” factors such as laws, trade agreements, regulation of industry and anti-trust rules. The MIT approach was to look at “the nation’s production system: the organisations, the plant, the equipment and the people, from factory workers to senior executives, that combine to conceive, design, develop, produce, market and deliver goods and services to the customer”.

The adoption of this procedure did not imply that macroeconomic and other factors did not matter. Instead, the justification was that they could not, alone, account for the

disappointing performance of the economy, which could only be fully understood by looking at what was happening on the shop-floor etc.

It is widely accepted that productivity is the ultimate source of competitive advantage, and that it should, therefore, be the true long-run objective of policy. Non-physical aspects of output, such as quality, service and speed of product development also have to be considered in relation to competitiveness. Productivity has to be seen, as well, in terms of the costs of activities complementary to industry, many of which have an indirect but ultimately critical impact on the competitive performance of industrial companies. As *Drucker* (1991) notes: "the greatest single challenge facing managers in the developed countries of the world is to raise the productivity of knowledge and service workers". Other factors also affect competitiveness, such as the pace of invention and discovery, and the speed of incorporation of technological innovations are further important factors. Competitiveness may hinge on the speed with which new concepts are converted into manufacturable products and brought to market; on the flexibility that companies are able to demonstrate in adapting processes or in switching from low margin to attractive; and on the correct choice of markets.

Porter (1990) argues that "explaining why a nation is the home base for successful competitors ... is of decisive importance to the nation's level of productivity and its ability to upgrade productivity over time". The framework he goes on to develop (the "diamond") provides a useful way of distinguishing the different elements that come together to influence productivity, although the observation that there tend to be clusters' of competitive advantage does not point clearly to policy implications.

Certain key industries play a crucial role in competitiveness, for example if they generate technological spillovers or create demand for other sectors. These strategic sectors may not visibly alter current productivity data, but because of the external effects they engender, they will have a marked impact on long-term productivity growth. Following this reasoning, the MIT Commission favoured the adoption of the term productive performance, as a wider and more operational concept than narrow, conventionally-measured productivity.

An alternative approach involving a three-way split of factors affecting competitiveness was developed by IFO in a study for the European Commission (published in 1990 as *An empirical assessment of factors shaping regional competitiveness in problem regions*). These are:

- National factors, some of which are macroeconomic indicators, while others are characteristics of the economic environment, such as the system of industrial relations, the training infrastructure, the efficiency of the capital market or the regulatory framework.
- Regional or local factors which exert an influence on the structure of costs of enterprises. These include ease of access to markets and suppliers, the availability of support services, the quality of the labour force and the scale and type of policy incentives obtainable by producers.
- Characteristics of enterprises and branches of industry. A range of different sorts of attributes of companies will bear on a region's competitiveness, such as the mix of large/small; level of technology in use; propensity to innovate; or the stage of production in which they concentrate. These will be complemented by the structure of industry according to various criteria (as studied, for example, in the *Buigues, Ilzkowitz and LeBrun* study for the European Commission, 1990, published as *Social Europe*).

Industrial policy and competitive advantage

Although macro-economic factors inevitably influence the economic performance of regions, competitive advantage is mainly concerned with supply-side performance which is affected by a range of policy areas, a key one being industrial policy. A narrow definition of the term "industrial policy" covers a wide array of policies, including direct intervention to support emergent or declining sectors; help for innovation, diffusion of new technology or R&D; capital subsidies; sector strategies; and direct public production. Competition policy, rules on mergers and acquisitions or regulation of product and production standards are other facets of public involvement that might fall under a broader definition of industrial policy. However, for present purposes, the narrower definition will be adopted.

The poor record of industrial policy has led some commentators to regard it as intrinsically of little value (*Crafts*, 1993), although the experience of Japan and some of the other dynamic Asian economies suggests that a public – private partnership can work effectively to develop an industrial base. Regional policies which sought to divert branch plants from favoured to less-favoured regions have also been criticised because they give rise to economic units ill-suited to the recipient regions. However, the shift in emphasis in regional policy towards indigenous development diminishes this concern. Nevertheless, in considering the case for decentralisation of industrial policy, it is important to address these doubts.

Discussing the sources of regional difficulties in Hungary (and, by implication in other countries in Eastern Europe making the transition to a market economy) *Horváth* (1992a) emphasises the emergence of small companies and the break-up of large centralised state enterprises as a key factor in the evolution of industry to which policy has to respond. The switch from large to small businesses is bound to imply a shift in the basis of policy support to reflect changing economic relationships between productive units and between localities and regions. It can be argued that this should include the decentralisation of the formulation and implementation of policies targeted to improve entrepreneurial skills, finance for SMEs and complementary services

High-technology industry

There is a widely held view that advanced "industrial" countries such as the more prosperous Member States of the EC should naturally evolve away from traditional, basic manufactures towards a relative specialisation in high-technology activities, and that this should be reflected in industrial policy. It is not easy to define high technology. Broadly, it encompasses the application of new scientific knowledge, the creation of innovative products, and the advancement of processes of production (*Markusen et al.*, 1986). The supply-side factors which affect competitiveness in high technology sectors tend, however, to differ significantly from those of more traditional economic activity, and consequently represent a particular challenge for decentralised industrial policy. Nevertheless, the perceived significance of high-tech industry and processes is manifest in the priority given to efforts to develop these sector by agencies such as the Welsh and Scottish Development Agencies, or in the role played by institutes such as the Steinbeis Stiftung in Baden-Württemberg in stimulating technology transfer.

Interest in high-technology matters for regional development not only because of the potential for development of new industrial specialisations, but also because of the

transformation of the economic environment that IT, especially, is expected to engender. If *Imai and Baba* (1991) are to be believed, "the impact of IT will lead to a total restructuring of world industry and business on a massive scale, and will include almost all the developing countries and all industrial sectors". They argue that an important dimension of this change will be the emergence of cross-border networks in which a key element will be the establishment of means of information exchange across regional boundaries. In the *Imai and Baba* analysis, the focus of analysis is on firms and networks of firms. From the perspective of industrial policy, an extension of their argument would be for policy action to reinforce enterprise responses to such opportunities (and, of course, threats) by enhancing relevant infrastructure and providing logistic support. In this way local businesses could be assisted to participate effectively in these emergent networks. The key point here is that it is action at local or regional level, rather than national communications infrastructure, which would make the difference.

A less sanguine view of strategic industrial policies with their emphasis on promoting sunrise industries emerges from some of the analysis of industrial districts. *Zeitlin* (1992), for example, argues that the success of some industrial districts in building a competitive advantage in supposedly declining industries such as clothing or furniture-making demonstrates the superiority of concentrating on existing strengths. He also highlights the importance of publicly-provided inputs and services, few of which would be provided if left to the market, in sustaining competitiveness. A key catalytic contribution of decentralised policy has been identified in successful industrial districts, which combines leadership and the promotion of consensus.

Why decentralise?

Before considering the merits of decentralisation, it is worth specifying which aspects of policy matter in this regard. The following policy "functions" can be distinguished:

- funding of the programme or the budgets of the agencies delivering the policy. There is no compelling reason to decentralise this, although the linked issues of accountability and evaluation may have some bearing on the choice of tier of government;
- formulation of programmes and the adoption of policy instruments can benefit from both top-down and bottom-up inputs;
- delivery is the function where the case for being close to "clients" is most persuasive, because this is the context in which local knowledge and identity can be expected to improve quality. Similarly, knowledge of local priorities can lead to better customisation of programmes or policy instruments, including experimentation with new schemes or innovative approaches;
- co-ordination is required both between programmes affecting a particular area, and between areas to ensure that spillover effects are accommodated or duplication is avoided. The former is probably best achieved by the same tier as is responsible for delivery, whereas a higher tier is needed for the latter. Co-ordination also implies the setting of eligibility rules, where a higher tier has to be the prime mover.

These initial observations suggest that the case for decentralisation may be strongest for delivery and customisation of policy, but that the lower tier also has an important part to play in formulation. It is also important to consider the nature of the problems

affecting a region and the targets that policy is seeking to promote in order to address these problems. Regional problems include underdevelopment of the industrial base, the need to assist adjustment consequent on the decline of traditional industries and the search for an upgrading of the regional economy. However, there need not be a "problem" as such: part of the success of regions such as Baden-Württemberg or Emilia-Romagna has come from the contribution of policy to the retention or enhancement of existing advantages.

Categories of targets of industrial policy

Among the many policy areas which fall under the umbrella of industrial policy, the focus of decentralised policy is likely to be more on direct forms of intervention than on what might be called "environment-setting" – policies on regulation, mergers and acquisitions, or promotion of competition. This is not to deny the importance or relevance of such policies, but rather to note that they are generally set at national, and sometimes international, levels. The targets of direct intervention include:

- SMEs,
- inward investment,
- support for "anchor" companies which have a significant impact on the structure of a regional economy, both by acting as the core of sub-contracting networks and by creating the basis for clustering,
- building sub-contracting links both with other enterprises in the region and with customers in other regions,
- provision of support services whether through public provision or through the market.

Potential advantages of decentralisation

A variety of potential benefits are claimed from decentralisation of policy delivery (Bachtler–Downes, 1993; Schmandt–Wilson, 1990). These derive, essentially, either from a greater knowledge of relevant characteristics of the local economy or from the establishment of a local networks and institutions which have a direct interest in the success of programmes and policies. The potential advantages include:

- being closer to factor markets and thus capable of switching priorities as necessary e.g. between property development and training,
- better knowledge of local entrepreneurial capability, of impediments to the growth of small businesses and of the strengths and weaknesses of local actors,
- ease of identifying targets of policy through local networks, in order to provide and disseminate information,
- a devolved system is, itself, more open to experimentation and innovation compared with more rigid national support schemes,
- an agency in the region can be identified with the local culture which engenders unity of purpose and regional identity,
- an association with political and administrative structures also appears to help by speeding up response times and lending popular legitimacy to the process,
- disparities in take-up rate of top-down programmes associated with different configurations of regional problems for instance, the German example of finance for SMEs being influenced by strength of local financial system (Bachtler–Downes, 1993).

In addition, the very fact that decentralised policy works in selected areas suggests that there are successful models on which to build. Equally, it has to be recognised that decentralisation is not a panacea: a lack of strategic vision can mean that the aggregate gains are substantially lower than the sums of the parts, a criticism recently levelled at urban policy in the UK (Audit Commission, 1989).

Possible drawbacks

The most obvious drawbacks of decentralisation stem from, on the one hand, the risk of overlap and duplication, and, on the other hand, inefficiencies in policy delivery resulting from an inability to realise economies of scale or scope:

- decentralisation imposes a greater requirement for co-ordination to ensure that regions do not engage in wasteful competition with one another, possibly resulting in a "subsidy race" which is a negative, rather than zero-sum game,
- conflicts can arise if policy in one region has undue spillover effects for other localities,
- the relationship between possible improvements in regional delivery of policy and national policy objectives is an additional aspect of co-ordination,
- it can also be argued that decentralisation provides the opportunity for beneficiaries to obtain support from multiple sources, although this is more a question of proliferation of agencies, rather than the tier of government providing the assistance,
- if there are too many actors in the industrial policy field, there can be a proliferation of assistance schemes and responsibilities leading to confusion amongst "clients",
- evaluation difficulties may be greater where policy delivery is much more diffused.

Instruments of decentralised industrial policy

Starting from the presumption that the aim of decentralised industrial policy is to bring about improvements in competitive advantage, it is pertinent to ask which policy instruments are likely to be most suited to decentralisation. The availability of finance inevitably sets limits to what can be envisaged at regional or local level, but there are, nevertheless, categories of policy instrument where the lower tier may be thought to have advantages. A second presumption is that lower tiers of government have no direct influence over the main macroeconomic variables which affect competitiveness (i. e. the interest rate, the exchange rate or the underlying rate of inflation).

A number of principles can be adduced to determine which tier is most suited to which instrument, although it is worth stressing that certain instruments can be effectively deployed at different levels of intervention. Perhaps the most basic question about any instrument is whether its immediate benefits can be retained within the spatial boundaries in which it is applied. This is unlikely to be true of:

- basic R and D assistance,
- major physical infrastructure networks (such as trunk roads),
- venture capital or other financial instruments for which it is not easy to exclude prospective users.

Some types of instruments may be more easy to target to the local economy depending on how they are conceived and applied. This is the case with:

- investment incentives where the recipients cannot readily regard the assistance as a general subsidy to capital, but have to relate it to a specific (and additional) capital project.

- training support where the trainees can be expected to stay in the regional or local labour market, rather than using their enhanced skills as a passport for migration (Begg, 1990).

The main ways in which policy can help to create competitive advantage is by enhancing factors of production in the regional economy. In addition to training, this is seen in the attention paid in so many local policy packages to:

- property-led developments, including science parks or clearance of derelict land,
- promotion of business services which assist the growth of client companies in the locality (Daniels, 1991).

The role of the public sector as a "broker" or enabler is also important and there is are good grounds for believing that lower tiers will be better placed to ensure that economic agents come together in a way that is mutually beneficial. Local knowledge and powers of persuasion can be considered a vital element in policies such as:

- advice and consultancy,
- technology diffusion,
- university-industry links.

The enabling role of lower tiers of the public sector can also be vital in mobilising the assets of a locality/region. This can to some extent be achieved through physical planning, provided that a sufficiently strategic view is taken of the process. The French philosophy of *aménagement du territoire* commends itself in this regard. A more comprehensive interpretation of the notion of the best being made of local assets is the catalytic role ascribed to public agencies in sustaining successful industrial districts such as the so-called "Third Italy".

A further area in which decentralisation can assist is in the direct effect of the regional public sector on the development of the economy via:

- taxation (where there is discretion),
- public purchasing.

Examples

There are many examples of the adoption of a decentralised approach to industrial policy, some successful, others with more doubtful qualities. In federal countries, Germany being a prime example, the devolved nature of political and administrative structures has tended to promote decentralisation from the national tier. In other countries, central government has tended to play the dominant role. Even a cursory examination of the evidence demonstrates that it is difficult to generalise about what is or is not effective, especially, as in so many countries, where the move towards decentralisation has only occurred recently. However, in this section we present brief sketches of approaches in a range of different areas.¹

Germany

There has been a tendency in a number of studies to take the German system as an illustration of what can be achieved with decentralised policy. Within the federal

structure of Germany, the Länder have enshrined powers under the constitution. However, they are not of equal size. Several are large, larger indeed than some of the other Member States of the EU. This gives them very considerable power as a region, though arguably they do not represent decentralisation to the level that we have been describing. In which case one would need to consider the application of the policy at a lower level, viz district (bezirke) or county (kreis). Here the powers are much more restricted. The advantage for the land is that it has control over a number of instruments of policy – however, the framework of that policy is often determined at the federal level and the lander involvement is rather more one of local tuning. The strength of the system comes from its structure – the fact that there are local banks, a local R&D focus, economic and technology ministries etc.

The German system thus has a much wider range of expertise available at the regional level and a much greater spending power even if the scope for discretion has limitations. However, the structure goes beyond that of the state alone with a clear role for employers associations and chambers of commerce, where membership is compulsory but the range of services large. This provides the scope for assistance tailored to the needs of the individual business, both through information and through training and consultancy. The whole scale is an order of magnitude larger than in the UK. The drawback is that unless the services are very useful then they can represent a form of taxation for the firm.

A second feature of the system is the close link between research institutions and local business, which helps to foster innovation and the adoption of modern technology. This comes not just through university departments, which have strong links with local industry but through networks of institutes. The Max Planck and Fraunhofer Institutes are the best known. The former concentrates on more fundamental research while the latter plays a role nearer that of technology transfer, trying to provide a direct service for firms (Mason, 1993). These latter institutes adopt an active profile, contacting possible customers and showing how they could assist them.

It is the combination of these factors, financial assistance, advice, technological and managerial help, all in the framework of highly trained and retrained labour force which helps provide the strength of the German system. Some form of decentralisation would be necessary to ensure effective delivery but the degree of local resources and expertise is far greater than that available even in Northern Ireland, Scotland or Wales. Perhaps the levels are excessive but they do give an idea how far the process of decentralisation can go even when the general framework of policy is nationally determined. An alternative of course is to give more scope for local policy, even including a measure of local taxation, which would permit the degree local flexibility shown in another federal country the United States.

Recent developments in the design and implementation of policy in Nordrhein Westfalen presents some additional insights into the effectiveness of devolved policy. The Land of Nordrhein Westfalen, the largest economy of the sixteen in the Federal Republic, initiated a programme in 1989 to decentralise regional industrial policy. A review by Waniek (1993) which presents a preliminary assessment of the success of this initiative – known as “ZIN” – concludes that although it has had benefits, “its most important objective, namely the improvement of economic development policy, is doubtful because the decentralisation is not far-reaching enough”.

ZIN does not directly introduce new policies so much as provide an opportunity to improve the targeting and effectiveness of existing assistance. It has three main components:

- Devolution of decision-making powers previously vested in the Land tier of government to a newly defined lower tier which lies between the *regierungsbezirke* and the municipalities, to strengthen local responsibility;
- Promotion of co-operation between various economic agents and agencies at the sub-regional level to facilitate the elaboration of a development strategy;
- Co-ordination between sub-regions in order to meet the wider economic development priorities of the Land.

The main thrust of the criticism articulated by *Waniek* (1993) is that the decentralisation is too cautious. He argues that the retention by the Land tier of what is, in effect, a veto on key decisions, means that the presumed advantages of the lower tier in arriving at better decisions are threatened. The apparent lack of flexibility in the way in which programmes are implemented exacerbates this. Objections are also raised to the definitions of sub-regions, since these do not always accord with natural local economies or bring together areas with common structural problems.

Hungary: Baranya

In Hungary, as in other countries of Eastern Europe, there was centralised control of economic development policy until very recently. As *Horváth* (1992b) observes, the focus of development policy was on macro-economic and sectoral strategies, which meant that little attention was paid to regional issues. The outcome was an unbalanced regional structure which favoured industrial concentration in some areas to the detriment of others. Following the economic reforms in Hungary in the 1980s, many centres of heavy industry were confronted with serious structural problems as major industrial enterprises went into decline.

Baranya county and its core, the Pécs-Kömlő urban area is an example of a region which has lost ground in this way. As in Western European regions such as Wallonie or South Yorkshire, it has moved from a position of relative prosperity based on heavy industry to lag behind most other parts of the country. In many respects (*Horváth*, 1992b) the region is caught in an adverse cycle of cumulative causation. It is losing qualified labour, unemployment has risen rapidly, and the important mining industry is losing markets.

The focus of regional policy in Hungary, following a recent review, is increasingly on locally funded and implemented indigenous development, with a stress on innovation. However, the institutional framework for policy delivery is only now being put in place and it is clearly too early to assess its effectiveness. Moreover, as privatisation and the switch to a market economy gather pace, it is likely that the advantages of the Budapest core, already evident in its disproportionate share of R&D activity (*Faragó-Horváth*, 1992) will be accentuated. For the regions with the most acute difficulties, there is manifestly a danger that indigenous resources will simply prove inadequate to enable the scale of transformation required. This raises the question of the degree to which decentralised policy can operate in the case of regions such as Baranya which face difficult adjustment problems without some transfers of resources from outside (whether from other Hungarian regions or external agencies).

The United Kingdom

The UK has a very dichotomous approach to decentralisation as an industrial strategy. For historical and constitutional reasons, Scotland, Wales and Northern Ireland have considerable autonomy, with a central government department located in the respective capitals responsible for a range of policy areas. By contrast, England with over 80 per cent of the population of the UK, has no regional administrative structure and limited powers for its local authorities, powers which have been increasingly eroded over recent years. Recently, however, training and economic development policies have been brought together with the establishment of a network of locally-based *Training and Enterprise Councils* (known as TECs).

Northern Ireland, Scotland and Wales all give pointers to the ways in which decentralised policy can have a favourable effect. In each case the starting point is a region which is disadvantaged in a number of senses. For much of this century the three have had higher than average unemployment, lower than average GDP per head, and have been regions of net emigration. All three have adopted a positive approach to regional development and have set up regional institutions charged with improving local development. However their administrative structures and measures used have varied as has their apparent success.

Wales

Wales provides a good illustration of effective decentralisation as it has exhibited obvious success in both absolute and relative terms. Relative unemployment has fallen and in the late 1980s, Wales was the only part of the UK to increase employment in manufacturing (employment rose by 15 per cent, while it fell in Great Britain by 6.5 per cent). According to calculations by the Welsh Office, the net cost-per-job has been much lower than normal for government schemes.

A whole range of factors has led to the improved economic performance, although a prominent one has been the ability to attract inward investment. An advantage that Wales has relative to other traditionally assisted areas of the UK is its proximity to the prosperous core of Southern England, which has been enhanced by major upgrading of road and rail links. Its favourable geographical position is complemented by lower costs compared with other localities in the "M4 corridor" running West from London. It also benefits from a pool of relatively well qualified but under-utilised labour (the unemployment rates were high and the participation rates continue to be low). However, high on the list of favourable factors is the structure of organisational support available to inward investors.

Apart from the Welsh Office, Wales has specialist bodies – the Welsh Development Agency (WDA) and the Development Board for Rural Wales (DBRW) – which deal with economic development, in addition to two tiers of local authorities with similar powers and responsibilities to those in England. These agencies have the financial clout and remit to put together a package in combination with the Welsh Office, the local authorities and the utilities which includes a site, buildings and facilities as well as the usual financial incentives. Some of the difficulties, like obtaining planning permission which normally inhibit expansion are avoided because the WDA (DBRW) has prior permission to develop the site. The Welsh Office now also has responsibility for

vocational training and the sorts of packages that can be put together include the provision of training for the workers of the incoming company to help adjust to the new working methods and culture.

WDA is also seeking to emulate what it sees as best practice elsewhere. One example is the creation of centres of excellence so that Wales can be a focal point of activities involving R&D and a high value-added, knowledge driven environment. They are currently trying to set up a "technopole" in Newport and are endeavouring to establish means of transferring technology, particularly into small businesses along the lines pioneered by the Fraunhofer institutes in Germany. This sort of activity has a long way to go before it will amount to a great deal but it is instructive to note what they have chosen as role models. It is also notable that Wales has deliberately tried to develop relationships with the four "motors" of Europe, Baden Württemberg, Catalonia, Lombardia and Rhône-Alps, with a view to learning from them and linking itself with the best.

Scotland

Some of these features are even more highlighted in Scotland which has more control over its own affairs than Wales, with separate legal and education systems and a greater access to resources. The Scottish economy is a good example of the decentralisation of policy. Its economic development policy has long been determined by indigenous institutions, with the policy framework set by the Scottish Office and implementation orchestrated by the two development agencies: the Highlands and Islands Development Board (HIDB) and the Scottish Development Agency (SDA) *Danson et al.* (1993). Much of Scotland has been designated for regional policy assistance since such policies were initiated in the inter-war period. Throughout, the principal problem areas have been Clydeside and Ayrshire, Dundee and the more remote parts of the Highlands. The Lothians and Border Regions, by contrast, have generally had stronger economies. As in Wales, it is the decline of heavy industry in the Central Belt which has been at the root of Scotland's economic difficulties, though the decline of rural economies has been an additional problem.

Following the publication of a White Paper in 1988, the two development agencies were reconstituted as, respectively, Highlands and Islands Enterprise and Scottish Enterprise, a change which saw training responsibilities formerly handled by the Training Agency merged with (most of) the agencies' development functions. However, the change also brought into being twenty "Local Enterprise Companies" – related to the TECs in England and Wales, but with a greater development orientation – operating at a further level of decentralisation. Scotland consequently now has an institutional framework for industrial policy which exemplifies the decentralised approach.

How successful has it been? The Scottish economy, overall, has weathered the current recession in the UK economy better than most English regions and currently has an unemployment rate marginally below the UK rate. However, until the late 1980s, Scottish unemployment had remained obstinately above the UK rate, and other indicators such as net emigration testified to the relative competitive weakness of the economy. The long time scales for industrial regeneration are such that it is never easy to relate specific outcomes directly to the policy package. But, as in Wales, the structure of the Scottish economy has been substantially changed, with little remaining

of the declining heavy industries and new competitive strengths in electronics, office equipment and financial services.

Indeed, the extent of the concentration of personal computer manufacturing in Scotland does suggest a *Porter*-style cluster. In contrast to the factors affecting clustering in the *Porter* model, this success appears to have come largely from inward investment, and may consequently lack the sort of depth needed to sustain indigenous development. *Turok* (1993), for example, finds that "inward investment in the Scottish electronics industry is not very deeply embedded", with just 12 per cent of inputs sourced locally.

Although it is difficult to assess the aggregate effect of policy, it is possible to be more affirmative about whether decentralisation has been helpful. The HIDB and SDA are considered to have contributed to successful and cost-effective economic regeneration in Scotland, and their efforts in conjunction with *Locate* in Scotland have encouraged inward investment. Reviews of both agencies carried out in 1987 (Industry Department for Scotland, 1987a, 1987b) expressed support for their activities (while inevitably recommending changes) and emphasised the advantages they obtained from being at arms-length from central government and thus able to co-operate with local agencies and to tailor policies to local circumstances. Local knowledge and the ability to put together a package for inward investors have made it easier to deal directly with them. A broad conclusion reached by *Danson, et al* (1993) is that the success of development agencies has been founded on their ability to pull together a package of measures drawing on contributions from central and local government. This, allied with local knowledge has made them more effective than either central or local government acting in isolation.

The main criticisms of economic development policy in Scotland relate less to what has been done as to what has not been, partly because of the way in which the objectives of policy have shifted. Thus, the HIDB has had little impact on land reform, while the SDA has been criticised for not being sufficiently concerned with job creation. It remains to be seen whether the market failures that bedevilled the Scottish economy have been resolved in a way that will enable Scotland to emulate the apparent transformation of Wales.

Northern Ireland

Northern Ireland faces much more of a dilemma. It is clearly peripheral in that accessing the rest of the UK or other parts of what is usually described as the core of the European Community involves either air or sea transport. Belfast thus itself acts as a core and Northern Ireland has to be more dependent upon its own region. Being on the geographical edge does not itself entail peripherality, take the case of Singapore for example, but it does imply that the activities undertaken in a regional centre do have to have a clear role to play in the wider market.

Since Northern Ireland is administered directly by the Northern Ireland Office at present it also has very considerable local powers and remains distinct in administrative terms from the rest of the UK. The institutions go rather further than in Wales and Scotland. Not only does it have a Development Board but it also has the Northern Ireland Economic Council which brings together the social partners in a way which is now unique (following the closure of NEDO in 1992) in the United Kingdom. This opens

up further routes for local co-operation and focus. However, while there is a clear sense of focus in both Wales and Scotland, there is a two way focus in Northern Ireland, with one face towards the rest of the UK and the other face towards the rest of Ireland.

This aspect of linkage with other member states in the European Community is an interesting one in trying to settle upon the correct form of decentralisation. The EC has its own specific programme to encourage cross-border linkages (INTERREG). Many existing boundaries in Europe are not drawn for reasons which reflect current economic geography but historical events, often a very long way into the past (*Mayer-Hart*, 1993). Consequently, development for such a border region, particularly if it is peripheral, will be affected by the development of adjacent regions, especially if they lie between it and the core. Decentralisation can, however, be taken too far and needs to be seen in the context of transport and communications networks at least. For Northern Ireland, the transport network in Scotland and other facilities such as the ports in the Republic of Ireland could be of importance. Belfast, equally, can act as an administrative centre for the whole of Ireland and not just for that part administered by the UK – much of the basic infrastructure was set up on the basis of an undivided country.

The record in Northern Ireland up to the mid-1980s was mixed. Although there had been periods in which convergence towards the UK average in GDP and income had occurred, the gap was widening again in the 1980s, and this prompted questions about the effectiveness of policy. In particular, there was growing concern about the dependence of the Province on, first, public consumption, and, second, on the availability of subsidies. Investment incentives aimed at securing employment have, traditionally, been the mainstay of industrial policy in Northern Ireland. Following a review, however, the emphasis in industrial policy in has shifted to be more on improving competitiveness, rather than job creation per se. A preliminary assessment of the new approach by *McEldowney* and *Sheehan* (1993) finds that although the changes are supported by industry, there is still a strong desire for automatic capital grants. They suggest that this continuing “grant mentality” may reduce the effectiveness of the policy changes.

Rhône-Alps

In contrast to the UK, France has had a very positive approach towards decentralisation. Following the election of 1981, the Defferre Law (1982) and subsequent laws and decrees have to a large extent decentralised power, bringing about the emergence of the regions as a separate tier of government. The Rhône-Alps region, as one of the most dynamic in France, can be considered as an example of a successful decentralised policy. Its growth of value added in industry comfortably exceeded the national average since 1982 and its unemployment rates were consistently lower than for France as a whole.

Rhône-Alps' industrial structure is dominated by a high proportion of small and medium sized firms. In 1988 nearly two thirds of establishments employed fewer than 10 employees, although these accounted for just 10 per cent of the industrial work force. There are also a number of large companies, both state controlled and private. Networks of small and medium sized firms have proved to be more flexible in the light of changing economic and market conditions in the 80s and the numbers of innovative large, private firms has been few.

In recent years public policy has had two main strands. First, considerable resources have been targeted towards research, and education and training facilities. In particular, synergies between the region's universities, research centres and industries have intensified, for example through the establishment of "technopoles". Rhône-Alps has 12 main centres for technological development and there are a number of science parks, and technopoles within these. However, despite the resources going into R&D there remains a need to encourage a more rapid dissemination of the results to industry. Second, there have been large investments in infrastructure and communication networks to exploit the central position Rhône-Alps commands within the EU, and particularly as a gateway to the Mediterranean regions and Member States. A danger in this strategy is that it could divert industrial and manufacturing capacity away from the region leaving Rhône-Alps as a transit region rather than a centre of economic activity.

Concluding remarks

It is hard to make an unqualified case for preferring decentralisation in industrial policy. Many policy initiatives depend as much on the effectiveness of the agencies responsible for administering them as on the spatial ambit within which they operate. All the same, decentralised policies appear to be at least as effective as more top-down policies. Thus, according to *Bachtler* and *Downes* (1993) the German philosophy on industrial policy is that "local is best" for decisions on local economic development, unless there is a persuasive case to the contrary. This plainly echoes the wider debate on subsidiarity. *Bachtler* and *Downes* also stress the lead role in Germany of private sector self-help through the Chambers of Commerce, with public agencies in a supportive role. This is a model that may not necessarily be ideal elsewhere.

On the whole, the national level tends to be better suited to providing an institutional framework and co-ordination. This includes regulation and other elements of the economic environment. For some other policies, the arguments for decentralisation are either indecisive or depend on the precise form of policy instrument.

However, the evidence from some of the regions examined suggests that decentralisation can play a positive role in energising local economic actors and inducing a greater commitment to the policies. In Germany, in particular, the "local is best" ethos is well-entrenched and it is instructive to note that the ZIN initiative in Nordrhein-Westfalen is criticised more for caution than for taking decentralisation too far. What the case studies also highlight is the need for patience in industrial policy, with both Scotland and Wales demonstrating that achieving structural change and building competitive advantage are a long haul. The evidence on the reception of the changes in policy in Northern Ireland illustrates the fact that changes in policy, however, well conceived, take time to be accepted by their targets. Past experience in Northern Ireland also shows that decentralisation, of itself, does not necessarily work and that the detail matters. Nevertheless, proximity to the "client-base" amongst companies does seem to have its merits, suggesting that there is a case for placing greater weight on decentralisation in the design and implementation of industrial policy.

In considering how Hungary might respond to the challenges it faces in regional development, the case for effective decentralisation certainly merits consideration.

Some of the examples of a local focus which brings together public and private sectors in a dynamic framework have achieved encouraging results. They suggest that although there is no single ideal formula in terms of industrial focus or policy package, local powers and resources can be of considerable help in promoting economic development, even if the development plan is part of a nationally integrated approach. Regional delivery, motivation and initiative far from being inconsistent with a national vision, can actually enhance national industrial performance.

Notes

¹ These are preliminary overviews which will be the subject of more extensive work as our research project progresses. Other areas and examples will also be added.

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19 AGRICULTURE AND REGIONAL DEVELOPMENT

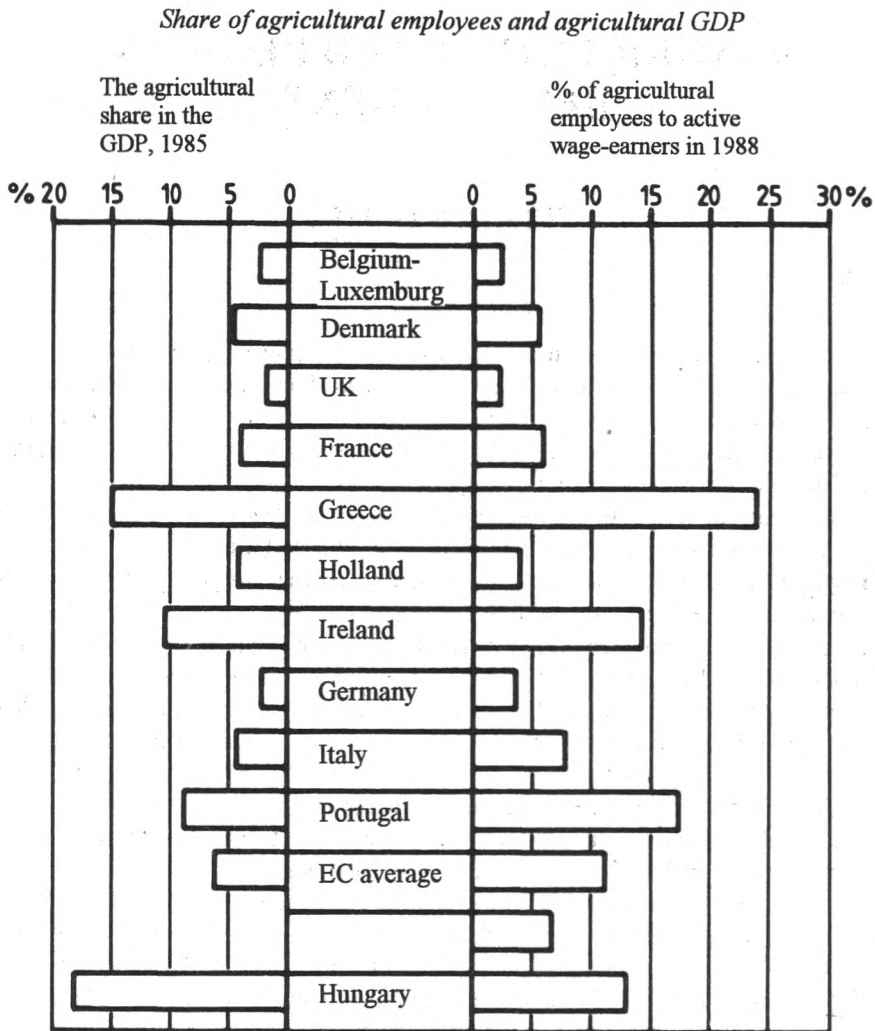
ATTILA SÁNTHA

The decreasing social and economic significance of the agrarian sector has, for a long time, accompanied economic development. This trend shows itself in the change of the number of employees and in its contribution to the GDP as well. At present these indices are extremely low even in the developed western countries which are regarded as agricultural great powers (e.g. France, Holland, Denmark, USA, etc.). So the agrarian sector cannot fulfil the role of a labour buffer (*Figure 19.1*). However, the decrease in the sector's economic significance continues and on the one hand it is a desirable phenomenon that the size of the estates increases, and in order to create the conditions for a competitive agricultural production the number of employees decreases in the relatively overpopulated regions where the economic conditions are good. On the other hand, the depopulation of regions with weaker conditions causes anxiety everywhere. The basic reason for this is the fact that beginning in the 70s the role of the agricultural production has broadened. Besides the traditional duties – food processing and raw material production for industry – it has to take a share in energy production (biomass), and in the creation of the conditions for regenerating natural elements, and for the recreation of the towns people who live a turbulent life and are exposed to an extremely wide variety of environmental harm.

Agriculture plays an extremely important role in energy production, because if biomass is utilised in energetics then the CO₂ balance is zero. That is, only as much CO₂ gets back into the atmosphere as the quantity drawn out by the plants. Agrarian production has a high significance in the renewal of natural elements too, because in every country 70–90 per cent of the territory is in agricultural and silvicultural management, and it is unthinkable that the air or the water leaves the town or an industrial plant cleaner than it was before getting there. The regeneration of natural elements is only possible on big, continuous green surfaces.

The new system of requirements appears in the regions in different degrees. The over saturated markets do not accept the higher production costs of the regions with unfavourable conditions – unless they can produce specialities – so in these regions the significance of agricultural production inevitably decreases, it is pushed into smaller territories and it is forced to apply more extensive and cost saving methods. But these areas are mainly under-industrialised, with a lower density of population, where the burden on the environment is smaller than average, and the weak productive potential goes together with a high value of scenery and a wide variety of species. These together create outstanding conditions to regenerate natural elements and to provide recreation

Figure 19.1



Source: Dorgai-Tóth, 1991.

for people. At the same time the areas freed from the agricultural commodity production can be utilised in the growing of energy producing plants (e. g. oil rape) but primarily in silviculture and wildlife, and can fulfil a definite function in the preservation of the specific natural treasures. The desired goals can only be achieved through the conscious change in the use of territory, the maintenance of management systems and, the preservation of the population who are economically and emotionally close to the area. However, if this is a spontaneous process, then the area depreciates to such an extent that the cultural value of the region falls greatly and the new functions can hardly be fulfilled. The entire loss of the population actually means that the desirable restructuring processes cannot be implemented even with great expense,

because all landscapes need a certain cultivation, and thus human care. A spontaneous process cannot bring the necessary result for another reason either. That is because the fulfilment of the desirable functions requires considerable development resources (e. g. infrastructural – roads, telecommunication – development, afforestation, planting of trees, etc.), which are not available in the low income regions. The traditional agricultural function will invariably be a determining factor in the regions with favourable conditions, but energy production from agricultural by-products may also have an important role.

In Hungary due to the fact that industrialisation took place late, the determining factors of rural development in many areas up to the present have been the agrarian sector, agricultural production, processing, distribution, and the manufacturing of production tools serving production and trade. The intensive industrial development implemented between 1950–1980 left large regions untouched and only the mining of minerals developed where the conditions were favourable. The industry which was mainly based in big cities forced great numbers of people to constantly commute or move house. The infrastructural development in fact fell behind the production requirements. The implemented developments served the purpose of solving the big cities' acute troubles, while in rural development the main goal was to maintain road (buses) and rail mass transport, which should primarily meet the requirements of commuting. Where there were no facilities for that (e. g. lack of roads) the villages faded away, they became the living place of for unskilled and old people who could not change their situation, and their fate was sealed. Fortunately, in many cases they turned into resort villages.

As a consequence of the determining agricultural role in rural development, the profitability of the agricultural production has always been a determinant, as it determined not only the size of agricultural investments, but also significantly affected the development of services. In the case of low incomes it slowed it down. The collection of agricultural income took place all through the century, which limited the accumulation of agricultural income. The only exceptions were the wars and the short periods of the post-war booms, but the wealth accumulated in this way was destroyed by the inflation which followed the wars. In exchange for the collected income, the country only got the infrastructure which was essential for production, insufficient road network, energy supply and telecommunications. The efficiency of relatively well organised health care was ruined by poor transport and telecommunications facilities. The infrastructure did not generate development, but followed it.

The period between the late 60s and the early 80s brought a change in rural development, during which the economic role of the agrarian sector increased and the collection of income ceased or became moderated. After the great shock caused by the formation of co-operatives, the co-operatives became consolidated and introduced the most modern production technologies, which forced almost the entire rural population to learn continuously.

A definitely positive point of the process was that the technological change went together with the continuous increase of production and incomes. The farms spent a part of it to create their own infrastructural facilities on development in the towns and villages (electricity, access roads, water conduits etc.), but this was limited due to the lack of free resources, and in the case of farms to which several villages belonged, it concerned the central villages, where in some cases development was spectacular (e. g. Bábolna, Somberek, Bóly). This caused further development inequalities within the regions.

In addition to the increased incomes in large-scale farms the village population could draw a considerable and secure additional income from the small production integrated by the large-scale farms. The essence of it was that the small producers who entered into a contract with the large-scale farms got the things necessary for production (porker, store cattle, fodder, sowing seeds, etc.) from the large-scale farms on credit, they only had to add their own labour and buildings, and the final settlement was made when the goods were sold. The increasing family incomes started the formation of a modern civilised society, which could be seen in the development of residential areas, higher standard houses, their furnishing, purchasing of durable goods (e.g. cars), higher education for children.

The modernisation of agricultural production had a considerable and complex effect on the employment of the population. As a result of the motorisation of production, the labour shortage which caused a problem since the formation of the co-operatives ceased to exist by 1970 (when the co-operatives were organised lots of people left agriculture and the village as well). Suddenly crowds of unskilled workers became redundant. The Act on Co-operatives stated employment duties, which were possible to fulfil with increasing difficulties. The agricultural farms found the solution in the development of industrial and service activities, which was encouraged by the fact that these activities yielded a considerably higher income than agricultural production.

This demand met the troubles of the town industry, where labour became more and more expensive, and it was increasingly difficult to find workers for the jobs which were done with the old technology which required hard physical labour and polluted the environment. Thus the agricultural farms co-operating with industrial companies opened up industrial plants in the unused farm buildings, which were empty as a consequence of modernisation. They used the machines of bad technical repair given by the industrial plants. These plants operated so successfully, due to their low costs, that they soon became the competitors of modern industrial plants. In addition to this the agricultural plants were increasingly keen on the exploitation of the raw material resources found in their areas (e. g. turf-pits, quarries, sand-pits, etc.), and also on the processing of the agricultural products (milk, meat) and the development of services (retail, transport, etc.). In fact they dealt with everything from producing computers, to making champagne. Though there were few operations which were really modern, rural industrialisation was mainly carried out by agricultural plants.

The economic significance is well indicated in the fact that in the 80s these activities produced 40 per cent of the annual income in the agricultural farms.

Through the development of the industrial and service activities the decrease of agricultural population stopped. The population even increased a bit, while the number of those involved in actual agricultural activities decreased further. E. g. in 1988 20.5 per cent of the labour force was employed in agriculture, while the number of those who did real agricultural work was only 12.7 per cent.

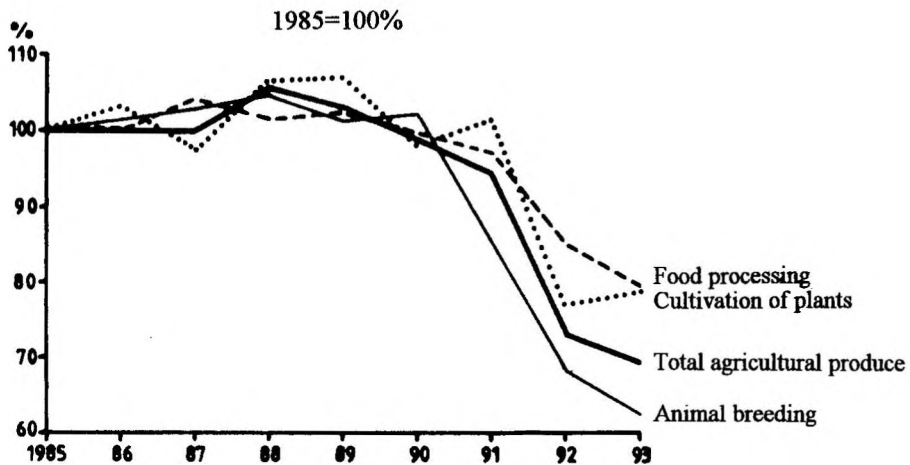
As a result of the agricultural modernisation and the development of complimentary and service activities, the migration of the village youth has slowed down, and as these activities require skilled and in many cases a highly qualified labour force, a return of well qualified specialists also began. Commuting from towns has become quite typical.

However, the rural industry which depended heavily, on the city, was in an insecure position. Already in the 80s the industrial companies started to manage the production within their own enterprises which they had previously transferred to the country. When the markets shrank they closed primarily their rural contacts, which was

followed by sacking the commuting workers. This caused extremely high unemployment in the country. Beginning in the late 80s the collection increased, the production fell owing to the loss of the inner and external markets, and this caused a crisis in large-scale agricultural production and small-scale integration as well. Very many large-scale farms were closed. Due to the lack of tools and capital the people could not cultivate the land and so they became unemployed. The recession concerned the entire agrarian sector, and it became unbearable in the regions with definitely weak productivity. The rural crisis is primarily caused by the fact that agricultural production and rural industry got into a critical situation at the same time (*Figures 19.2–3*).

Figure 19.2

Changes in the gross production of agricultural products and the food processing industry



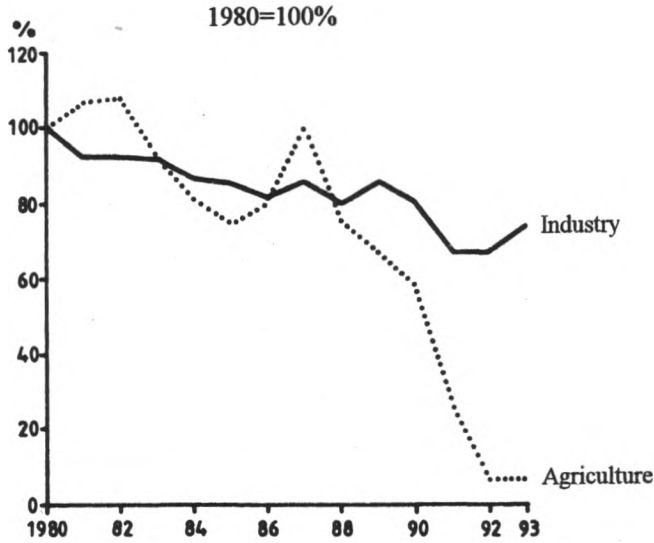
Source: KSH. 1983. GKI. Rt. prognostics.

The crisis was only *curbed* by the fact that the money necessary to provide for the functions of the towns and villages – unlike in the previous period – is distributed in head quotas and relatively big amounts are provided for infrastructural development schemes. Local governments can get this money through applications. Thus previously neglected small towns and villages also implemented spectacular development programmes (mainly development of roads, water conduits, telecommunication etc.), while a significant number of the population was unemployed. The lack of co-ordination in the development programmes of particular towns and villages causes trouble at present, and there is a claim for a strengthening of co-ordination between small regions. It is to be feared that these development resources would again gradually dry up if the recession goes on and the agricultural crisis deepens. (*Figure 19.4*).

In Hungary the outstanding role of the agrarian sector is as a natural endowment, that is why it cannot be replaced with anything that is of similar efficiency. That is why

Figure 19.3

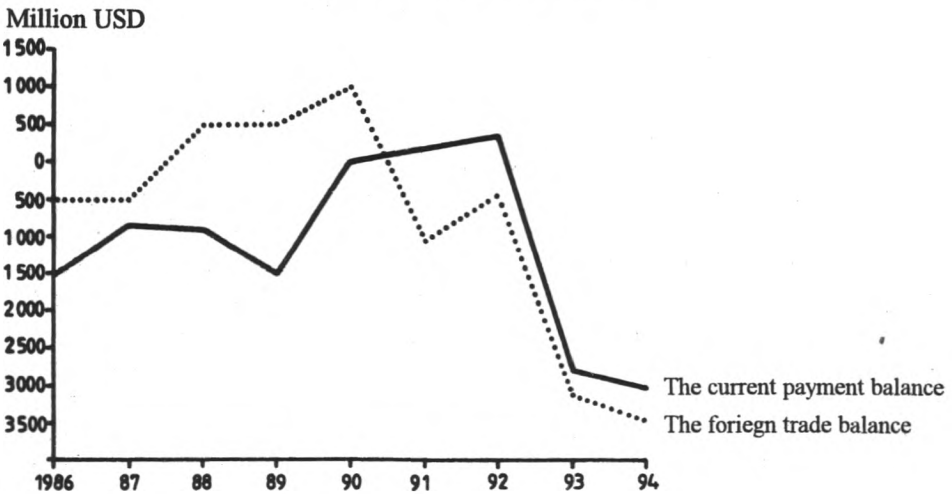
Changes in the volume index of the agricultural and industrial investments



Source: KSH. 1983. GKI Rt. prognostics.

Figure 19.4

The indexes of foreign balance

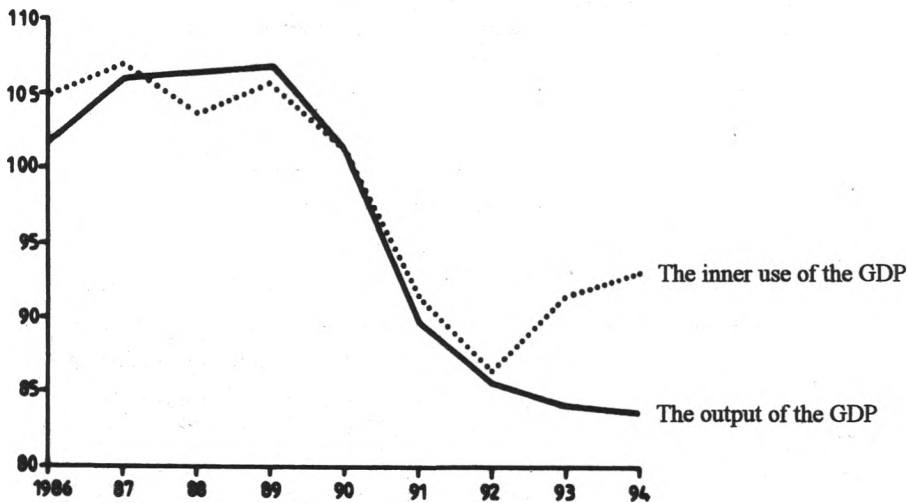


Source: KSH and GKI Rt. prognostics, 1993.

the country's development, the improvement of the rural cultural state is unthinkable without the recovery of income-yielding capacity in agrarian production. The country's agriculture cannot be competitive – however high the agrarian culture is – if it is a net payer into the budget, while competitors produce with 30–60 per cent state subsidies. It was shown in the last three years that no sector can achieve such a high foreign trade balance, and the fall of agricultural exports spoils the foreign trade balance. (e.g. the \$2.7 billion agricultural exports of 1992 is expected to fall to \$1.5 billion in 1993, and the deficit of the foreign trade balance will be \$2 billion compared to \$300 million last year. (Figure 19.5). The previous years have also proved that in the regions with unfavourable conditions the subsidies given to restructure and to maintain production is a smaller burden for the country than the unemployment which is gradually becoming unbearable.

Figure 19.5

*The output and domestic use of the GDP
1985=100*



Source: KSH and GKI Rt. prognostics, 1993.

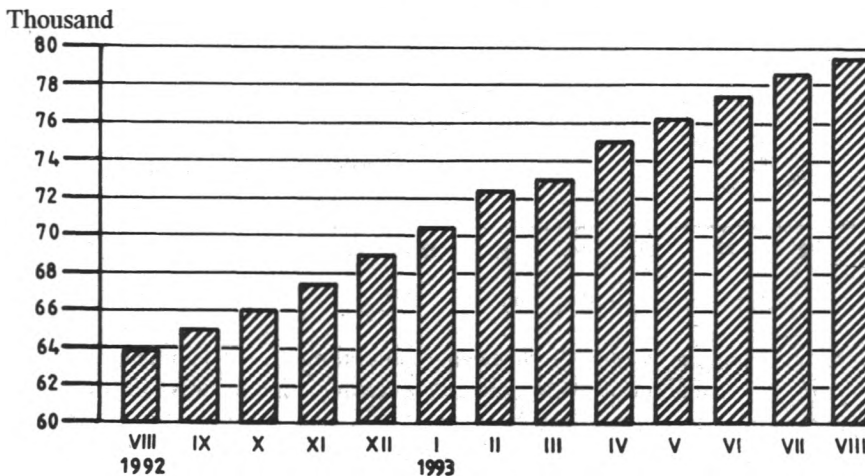
The assumption that the Western European agricultural model can be transplanted into Hungary in the same form, with out the necessary capital, was an unfounded assumption at the beginning. It only resulted in the disarrangement of domestic agricultural relations. After the issue of landed property, it was decided that it should be made possible for the people who live on agriculture to choose the form of organisation themselves. If they want they work independently and if a form of co-operation is more advantageous for them then they produce in co-operatives. It is surely untenable that a large share of the land would be owned by outsiders, because under domestic relations the low level of incomes does not make it possible to include rental fees in food prices. In this way the drawing out of agricultural income continues,

because while in the previous period the parents spent it on the support for the children and grandchildren who moved to town, in the future it will be owned by external landowners. The drawing out of income is increased by the dismembered state of the food veticals, which could only be curded if an increasing share of the processing industry and wholesale distribution was owned by agricultural producers and thus controlled by them.

In the Hungarian agrarian sector not only the organisational system but in certain regions also the structure of production needs restructuring. In a large part of the country the production of grains, oil seeds, sowing seeds and meat can be managed competitively, but in mountainous and hilly regions this production structure can be maintained only within limits. The solution there can be more extensive animal keeping and large-scale afforestation program on 0.8–1 million hectares. This can solve the employment of labour until the services and the industry are developed up to the necessary standard. At the same time, in these regions the development of tourism and the preservation of nature must acquire a greater significance. The entrepreneurial spirit in the country is quite high (*Figure 19.6*). Ensuring a favourable economic environment for small enterprises who adapt well to the conditions of a particular region. These can be boosted even in regions with unfavourable conditions.

Figure 19.6

*The number of incorporated economic organisations,
August 1992–August 1993*



Source: KSH, 1993.

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20 METHODOLOGICAL APPROACH TO THE DEVELOPMENT OF REGIONAL PROGRAMMES FOR ALTERNATIVE EMPLOYMENT IN THE TRANSITION TO MARKET ECONOMY

GESHO GESHEV

Introduction

The general fall off of the Bulgarian economy led to a fast decrease of employment in 1991 and 1992. In spite of the fact that this decrease did not correspond to the bigger scale of diminishing of production, in industry alone employment was limited to 25 percent. The main drop of employment in the industrial sector did take place in those two years, but at a smaller pace and the closing down of places of work continued also in 1993 to a limited degree. The most unfavourable social effect of the slowing down of the Agrarian reform must be added to this loss of jobs. The start of the liquidation in 1992 of the former "socialist", in essence state co-operative farms, made also unemployed a number of those engaged in agriculture. The liquidation of the former co-operative farms caused a vacuum, plus in practice a lack of owners (individual or collective) who could normally start some sort of agricultural business. The restitution of the agricultural land will be finalised not earlier than 1994.

All of this resulted in a very high level of unemployment in the country, which as early as the middle of 1992 was approximately 14–15 per cent of the working population.

The Bulgarian government had to issue two decrees (No 140 and No 163 respectively of July and August 1992) for the liquidation of a number of ineffective ore mines and for the almost complete liquidation of the uranium mines. These two decrees caused the loss of a number of jobs in several regions of the country, but worst was the effect in the Rhodopa Mountains where 70 per cent of the non-ferrous mines had been in operation. Because of the mountainous character of these regions the availability of arable land for the population is 2 to 3 times smaller than the average for the country. In a series of municipalities in the mentioned mountainous Rhodopa region, unemployment reached more than 30 per cent and in fact the population lost its traditional means of living in mining and tobacco growing because of the lack of markets.

The shock of unemployment gave rise in the middle of 1992 of a "second wave" of emigration to Turkey of Bulgarian Turks from the Eastern Rhodopa regions.

The present wider introduction to this research paper may be of use in tackling the problems arising from the restructuring of the industries in some of the East European countries. Our participation in several initiatives for solving the problems of unemployment caused by the crisis in the industries gives enough back ground to present a model for approaching development for the Government, of branch regional programmes for alternative employment in the state owned industrial enterprises.

Consequently, for the purposes of competition in the field of the Ministry of Industries (in the end of 1991 and 1992) we prepared forestalling employment programme methods for the cases of the closing down of the especially big industrial enterprises and a wide regional programme encompassing whole parts of the country too.¹

On the basis of these methods a team of researchers prepared two out of the seven regional programmes entrusted to us by the Ministry of the Industries in the exceptionally short time of two months. These programme were received well by the said Ministry in July 1993.

The team of researchers had in advance the chance to apply the basic methodological principles while helping some international consultants on economics and the energy for the study at the end of 1992 of the mining sector of the country, done by The PHARE Programme for the needs of the Ministry of the Industries of Bulgaria.² The collaboration with the international consultants gave us an opportunity to enrich our methodological approach.

In spite of our wish to get to know the experience of the countries of Central Europe which have tackled this problem before us, No. 1 in the transition to market economy, we could only receive some information about the research done in Hungary. It was supplied for us by *Gyula Horváth*, director of the Transdanubian Research Institute of the Hungarian Academy of Sciences whose research paper on a series of theoretical issues of regional policy was of significant importance to us.

Aim and basic attitudes

Our basic aim is to offer methodological approaches for the realisation and management of regional programmes for employment in the industries in the transition to market economy.

The offered methods and methodology aim at solving the following problems :

- Working out of regional programmes for employment in the time of dynamic changes in the restructuring of the industries;
- Using various procedures of work in the programmes in accordance with the range and functioning of the legal system;
- The application of realisation mechanisms ensuring mutually co-ordinated action among the State, the employers, the firms, the local institutions, the unemployed and the domestic and international organisations in the realisation of the programmes' initiatives in the industrial sector;
- Regard for the regional peculiarities and opportunities for making use of the local priorities for creating alternative job places in the industries;
- Evaluation of the results from the implementation of the programmes' versions, including the necessary financing, crediting and other means;

- Defining the competence and the co-operation among the Government institutions, the employers in the industries and the local organs of self management in the introduction of flexible systems for running the programmes of employment.

It has been our prime aim to encourage the industrial enterprises to create new places of work through effective action within the system of the market economy. In this connection, from the methodological point of view, the priority of necessary activities must be put in a definite order in the concrete regions with a view to diminishing the shock of the discharging of the labour force. Priorities can be defined for the following types of situations in the course of economic development:

1. Measures for the preservation of jobs through restructuring of the productive industrial units and of the individual enterprises which do not have a good economic perspective on a long term basis. The improvement of effectiveness or increasing the core of certain operations which may lead in the short term to the preservation of some jobs with low expenditure and without investments. Thus ground may be won even for the creation of additional working places in medium term for example 5 years. The methodological approach was proved effective in a series of big enterprises in the field of machine manufacture and the chemical industries, as a result of the programmes implemented by us programmes in two regions. Similar is the situation in the totally ineffective now mining sector, for example in the flotation in a very restricted capacity of production.

2. The restructuring should concentrate on setting aside some of the accompanying production activities in the existing state enterprises. These same activities may often be the nuclei of new enterprises in various fields of production and thus could be made more ready for privatisation or could be organised as private entities with the participation of the personnel of the existing enterprise. This type of solution for alternative employment holds an important place in the sub region "Mesta" of the Blagoevgrad city region in the North-western part of the country, where first basic industries to collapse defined the structure of the economy. As in the mining business, so in some other branches, there are maintenance workshops, transport and building industries which are in a position to be diversified and swiftly to broaden their activity outside of the corresponding branch.

Our international experience shows that the small and medium sized enterprises may happen to have the greatest importance for the increase of employment in short periods of time. We must mention here some passive resistance of the governing bodies of some big companies or factories who would like to preserve their production profile at any cost and thus keep a big number of unnecessary personnel. We observed at the same time however some governing bodies with profound business plans which gave them a chance to realise, projects of their own for alternative employment.

3. Helping the creation of new enterprises and business activities takes long periods of time and investment. The growth of employment may be smaller in scale from the growth which is usually the result of the restructuring of existing enterprises. In spite of that, small new enterprises are of considerable importance for the general strategy for helping the development of the local economy in the territories where vacant production bases or closed shops have been left behind.

Scope of the methodological approach

The research combines two elements:

- Territories in a given region as a condition for development of a certain enterprise or productive range;
- The enterprise from the point of view of employment.

The scope of the measures in the programme related to employment

The programme presents the measures for the creation of jobs while at the same time it studies to what extent one can count on:

- The existence of market oriented economy aided by a certain enterprise culture;
- The abolition of the entrance barriers or of other restrictions to development;
- The artificial stimulation of various sides of the market economy which are considered to have the greatest influence on the creation of new activities or helping the growth of existing activities.

The range of the mentioned measures are indirect and practically they are going to generate new working places depending on the extent to which the local businessmen will be in a position to create opportunities for employment, or to attract foreign investment in their region.

State support

The conditions for a market economy in the country, for the time being, are poor. There are, however, direct and indirect ways for rendering support to certain enterprises so that they can find their place in the market. Even within the frameworks' of a certain enterprises there is possibility for a combination of direct and indirect intervention. In most of the cases in the two researched regions, we had to offer at the same time direct and indirect interference of the State. For example, with excellent conditions for the development of brewing, the so called "bad credits" for former investment used by the previous branch formations, the big interest payments on loans now impede the development of the enterprise. Such examples can be cited for the majority of state enterprises in the food-processing industry, which for the time being sells their products in the domestic and foreign markets. Obviously, the State is obliged to apply direct measures to invest, (to remit credits) also to the enterprises which have succeeded in creating good enterprise culture, keeping their jobs, and including cases in which the number of jobs has also increased for certain production operations.

The preliminary acceptance of one type methodological scheme for state stimulation does not seem appropriate for application in certain regional cases. In most cases intervention appears to be an complex combination of measures and means, some of which may happen to play the role of a unbinding factor for the whole chain of the remaining mechanisms. The question is how to "discover" this unbinding factor so that it may have a multiplication effect for the limiting of the direct intervention of the State through the corresponding Government offices. The macro-structural approach which is applied for the evaluation of a whole enterprise does not give good results. One cannot take the most correct decision for the sort of measures to be applied to the various enterprises, if one does not study the conditions and the factors of the

economic, social and natural environment within the context of the geopolitical peculiarities of the place. Our interdisciplinary team, applying the regional approach, succeeded in organising in a better way, the enterprises in the region in accordance with the corresponding state intervention which was supposed to make quicker the transition to market economy, than the specialised units of the institutes of the Ministry of the Industries. This is the judgement of the Inter ministerial counsel of experts expressed at the meeting when the programmes were approved.

We substantiated our package of measures containing a number of combinatory variants and indirect means, detailed analysis of the surrounding environment and the economic conditions of the enterprises, keeping in mind the conditions of market economy (*Table 20.1*):

Table 20.1

Conditions of market economy

Poor	Very poor or nonexistent
Consolidation through passive measures	Making use of active measures (investing, sponsoring)

The active state support must be rendered only once because there is a risk that the concrete enterprise may not make use of the market conditions for its own further development. In fact, in the time of the transition there must be a constantly functioning system of passive support of economic development for the industrial enterprises. Though this system must consist of conditions and factors for the mentioned development, from the point of view of management it must ensure flexible intervention in the combined action of the state offices at four levels. In fact, we consider that to be the monitoring of the programme, which we have compiled in three blocs of interaction on the levels of state intervention.

Under the conditions of the present territorial structure, the local authorities have partial power to influence the development of the separate municipality. In spite of the fact that the Bulgarian municipalities are several times bigger in population and territory (on the average for this country) than those in Central Europe, we need higher subregional (micro-regional) co-operation of the offices of the local authorities. An association of the Rhodopa Municipalities has already been founded which proved to have done a very good co-ordinating job in studying the programme for alternative employment in the mining sector.

In 1992 the first two regional agencies for development through the PHARE Programme were set (in the cities of Bourgas and Smolyan). The agencies for regional development will perform the co-ordination for the implementation of the programme between the Government and the separate enterprises. In the mentioned cases, these two agencies were instrumental for the fulfilment of the approved programmes for alternative employment in seven regions in the country.

Probably it will be best for the realisation of these programmes to form sectors within the agencies for regional development. Or as in the concrete case, there may

arise the necessity of establishing an agency for sectoral development without a regional agency for development.

Conclusion

The change of the social system causes a swift reaction among the scholars for the formulation of a methodology and instrumentarium for the scientific substantiation of the creation of principally new legislation and regulative functions of the executive state authority. It is necessary that the methodology should be forestalling and not mindful of the theoretic basis of the contemporary transition to democratic government and market economy. The adopted principle of adaptation to the Western European models of transition does not clarify the specific situation in our European region.

The first series were definitely made of mistakes due to adaption of Western European models inappropriate for our conditions.

This research paper gave us reason to think that there is a series of open theoretical issues in the field of regional development which put the "transition" in a legislative vacuum.

Notes

- ¹ The methods have been made up by a basic research team led by *Gesho Geshev*, and the following participants: *Chavdarov, G.-Spiridonov, Y.-Assen-Petrov-Voinova, S. and Saveliev, P.*
- ² Conclusive report on the "Social Consequences of the Closing Down of Working Places in the Mining Sector", PHARE Programme, Sofia, February, 1993.

21 THE POSSIBILITY AND RESTRICTIONS OF THE REGIONAL DEVELOPMENT OF THE GREAT HUNGARIAN PLAIN

BÁLINT CSATÁRI

Introduction

The economic-social change of regime which recently took place in Eastern-Central Europe, has specific spatial (regional) aspects.

New (previously considered regions) parts of countries are being formed into states, or areas which have already been states are waiting for regional repartition. The concept of the region, which has had a general meaning and use until now, has been becoming European size step by step, sometimes with specific historical, political, ethnic or ecological, administrative meaning.

The first regional local and authorities under the governmental system, the regions, the provinces and/or the counties have had a more important role in the European unification process. Besides common goals, the unification and the disunity, the regional identity of several components, and the regional differences and geographical features are present at a time in these processes and can be construed from regional or territorial aspects.

This territory officially called the Great Hungarian Plain is typically the macro region of Hungary where symptom-groups of regional level appeared (appear) as syndromes following the economic-social change of regime. This created the need and demand for a new regional policy and structure and the introduction of an institutional system according to the system of a conditions of market economy.

During the last one and a half years, with nearly a hundred regional scientists and their common way of thinking, our institute, the Research Institute of Alföld of the Centre for Regional Studies of the Hungarian Academy of Sciences, renewed an attempt to express these problems for this Hungarian territory and to try to make a concept for the possibilities, restrictions and criteria of the future development of the region.

I would like to give a brief summary of the above-mentioned in my lecture.

Brief description of the region according to the above-mentioned problematic point of view:

These points of view (strongly concentrating the hundreds of specific conclusions and results) can be divided into four main groups as follows:

- the characteristics of the natural-ecological unity of the region,
- problems which can be expressed from the situation of the economic (productive) sphere (especially the agricultural economy),

- characteristics of the spatial systems of the region (settlement network, infrastructure),
- and the group of aspects arising from the specific situation, identity of the society on the Plain.

The majority of these regional problems are not new. Most of them have occurred in the last three years, but undoubtedly it is true that the new economic – social – political circumstances have put them in a new light and scale of values.

The characteristics of the natural and ecological unity of the region are as follows

The hollow character, the unified river-system, the climate which is becoming more arid, the unique regional-natural values which should be protected (flood areas, lakes, moor lands, grasslands) and the general endangering of the environment, require that on the Plain prospective regional development and regulation should aim at the preservation, or in many cases, the replacement of the diversification of the environment.

The river regulation of the last century and soil-binding, later the large-scale agricultural cultivation of the Soviet type, have greatly formed the environment of the region and made it an almost totally unified agrarian-cultural area. Those comparative advantages, which could be effectively accommodated to the potential of the environment, have been lost step by step.

The one-sidedness of the economic structure and the decrease of its support capacity

The one-sidedness of the economical structure (agriculture and food industry) and its development, which was necessary several times and was unorganised in many respects, are connected with the failure of the earlier modernisation attempts on the Plain. The agricultural sector could obtain real market positions with mass-production only. At present, when its last possibility of this kind, the COMECON, has collapsed, it has gotten into a difficult position. Almost 2/3 part of the food industrial capacity of the region is unused today, and the protraction of the agricultural reprivatisation effects the further decrease of production.

At the same time in 1992–93 the standard of the industrial employment decreased by 35–40 per cent in the region, indicating that during the privatisation the former state, socialist (big) industrial companies (the local industrial units on the Plain had settlements in Budapest or in other industrial towns and their production was controlled by firms there) wanted to get rid of their less efficient settlements first.

The result of the above-mentioned is that the economic support capacity of the territory greatly decreased following the change of regime.

The uniqueness of the settlement network and the general backwardness of the infrastructure

The variety of the settlement networks of the Plain, and its several unique features, have lost much of their importance as well. The results (advantages) of the unique historical development and area utilisation of former so-called agro-towns and the related scattered settlement (farm) systems, almost ceased during the past forty years.

The changes of these regional system- elements – similar to the natural environment – were pointing to unification. The backwardness of the tertiary sectors from similar regions of the country is especially serious (telephone network, road-system, public sewerage system, etc.). One of the characteristic data related to the demand for improvement of the infrastructural level is; if the development of the tertiary sectors on the Plain was similar to that on the Transdanubia the present unemployment (which is twice the national average) would decrease by half.

The problems of the society on the Plain and of the regional public administration

The present public administrative system of the Plain was established a hundred years ago (after 1867). Up to that time it had had several territories with unique privileges. The regional-administrative consequences of both world-wars resulted in the territory that the local market, economic, and social connections (which were formed during the past long centuries) had to be rearranged artificially and new contacts had to be established. The civil development of the region, career modification and backwardness compared with their modernisation possibilities, and the weakness of the local civil society are also serious difficulties for development. This is to a certain extent connected with the necessity of the euro regional economical-social integration of the Plain which is currently needed.

The possible strategic tendency of Plain development

On the basis of the above-mentioned, the research suggests the enforcement of four – to be enforced for the whole Plain – macro-regional strategic development basic principles:

- a) The protection of the value created by nature or man on the Plain, the difference and internal diversification of the Plain and compliance with the facilities;
- b) Determine the criteria of sustainable development and ensure its conditions on the whole area of the Plain;
- c) Establishment of an economic structure adequate for the inner (regional) facilities and the terms of international competitiveness, and the establishment of the terms of macro- (EURO) regional co-operation;
- d) Finally, we should participate in the elimination, or at least the reduction, of the acute economic and social crisis situation of the Plain, particularly of certain areas.

The research suggested the break down of these main strategic tendencies into further detailed tasks and to determine those short and long-term processes, and analyse the results which would give the reasons for them and could be the starting-point for their preparation. These are:

1. Further exploration, protection of the characteristics of the Plain, rehabilitation of its advantageous features. The planning-development programmes should replace the land-forming, structure, configuration functions of the systems (farms, groups of trees, riparian zones, fen windows) which give the natural, spatial, bare bones of the region with the help of adequate land utilisation, agricultural cultivation technologies and the necessary regulating-stimulating and prohibitive means. However this planned land

structure can greatly contribute to achieving the ecological and soil protection goals as well, and its solution can be facilitated by present proprietary formation.

2. One of the most critical tasks of the region is the *protection of the surface and ground waters and the supply on water of the Plain*. The Plain is the most rainless part of the country and in accordance with the forecast of the research, in a short time it will have a drier climatic zone, where the water and the continuous and complex economy of water-supply are the preliminary conditions of production. The waters on the surface and under the surface of the Plain will have a higher value and their utilisation and protection will require the establishment of new priorities and a comprehensive water- economic concept valid for the whole Plain.

3. *The maintenance of the productivity, of the soil on the Plain* is a basic need for the territory and for the agriculture. In, that case, that it is not regulated with proper procedures, 80 per cent of the land of the region would be exposed to some danger. As a strategic principle it can be determined that priority should be given to soil protection; the avoidance of impairment, and to its changes conforming to from ecological facilities of area utilisation.

4. *The maintenance of the native natural flora and fauna of the Plain*, the protection of species, and the maintenance of the genetic potential of the region are the conditions, moreover the possibility and aim of the international integration of the area. The *tasks of the future* in this area can be determined as follows: logical, rational and planned area utilisation; land- and soil-protective complex melioration activity; strict protection of the existing natural world in order to stop further gene erosion; putting protected species into gene-banks and breeding stocks. Where it is possible ecological corridors and steps should be established in order to maintain the species and ensure their diversification. This task can be solved only if those *interdisciplinary teams* work on the preparation of concrete provisions necessary for the protection of nature, who know *the optimal conditions for the survival of biotops*, and who are able to explore their internal and external connection systems. From this point of view *co-operation between nature protection and units and enterprises* dealing with economic activity is very important. Because the Plain has several natural resources of "in situ" value, the preparation of *local nature protection concepts* is also necessary building upon the intellectual base of the present National Parks of Kiskunság and Hortobágy.

5. *The maintenance of the traditional agrarian cultures on the Plain* is a fundamental task from the point of view of the whole region and the country. Agricultural production, is important, as shown by the territory ratio which generally exceeds 1.5 and for certain cultures by 2-3 times. On the basis of the self supporting peasant traditions and the significant agrarian research potential of the region, and in accordance with the economic challenges to this sector, in this area the *strategic goal* can be: in the case of certain cultures (e. g. apple, wine, vegetable) a rational, planned and selective *decrease in production* (because the planned prevention of oversupply can save the remaining part of the culture), the re-organisation of the *production-processing-sale chain*, ensuring *state participation* in purchase, sale and export, foreign advertisement and trade protection of goods. Besides the confrontation of the *specy- and technology-research* of cultures of higher importance and their production, on the basis of the results we can be sure that agriculture will not be able to support the area.

6. The maintenance of the specific structure of the settlement system on the Plain, utilisation of its facilities, protection of architectural value.

The *new system of the local authorities* can in a way effect the reconstruction of the original settlement system on the Plain. The local independence of each settlements was re-established; the hierarchical relations disappeared which were close to the structure of the original settlement system on the Plain. Privatisation and the disintegration of the big state organisations relaxed the hierarchical system of the economy, and unemployment eliminated the fundamental settlement differences of labour situation. The *new method of financing* the settlements generally provides more advantageous possibilities for the villages than before, but it was disadvantageous for the whole Plain. The *difference of the settlement system* – except the relatively developed institutional system of the two regional centres, Szeged and Debrecen – can be seen in the *backwardness of the basic infrastructure* of the former country-towns and the huge villages, the *insufficient development* and disorder of the regional, labour-division and –supply *connections* between towns and villages, the formation of frontier and inner peripheries and the increasing backwardness of these areas. The settlement system on the Plain – because of its features – could be suitable for receiving, preparing and executing the development programs building upon the regional-settlement-social characteristics regarding the historical development and local facilities on the basis of smaller areas formed by settlements of similar facilities.

The suggested tasks could be as follows: rational territory- and parcel-economy compliant to the local facilities, which promotes the increase in value of the inner areas of the settlements while on the outside areas – according to the changed economic conditions – it enables a more liberal *parcel-economy*. It can be suggested to approve new building and renovation in certain areas or in the suburbs of towns, only with keeping the traditional stylistic characteristics. Certain typical streets, and ground-plans should be declared as protected national value, but also benefit should be provided for their inner renovation. The establishment of the traditional industrial, and trade activities, and the tourism attraction of, as well as the peripheral planning of farms should be promoted.

This would mean the enforcement of the historically, geographically and architecturally determined genetic codes of the development in territory- and settlement-development, which would determine not only architectural conservation but would also find the owner and function – economically suitable for support.

a) *The variety of the land and smaller areas on the Plain, the values of ethnographic and ethnic diversity of the society of the region* can provide the possibility for the application of a regional development model starting from the bottom up. The development programme of the Plain can probably be most successful if it is based upon the *collaboration of smaller area-level, building upon the territorial-historical-traditional-economic and natural human regional connections*. During the research, 43 of the smaller areas were defined according to the above-mentioned criteria. Building upon these areas, the exploration, and mobilisation of the local natural and social resources, the revival of the local identity and collaboration can be best ensured. At the same time this strategy can be the one which maintains the historical differences of the certain smaller areas and the features of their tradition. In this way it can evolve regional development in favour of the whole Plain and the country.

Inside the Hungarian ethnic unit, the maintenance of the ethnographic, folkloric, the art-craft, and dialectical traditions, the creation of new value through education, culture and research on the Plain can be one of the main goals. Recalling the progressive traditions of the Scientific Institute of the Plain, between 1943 and 1947, the institute – which was re-established in 1992 and now collaborating closely with the universities and colleges on the Plain – can be the integrating base of the regional, culture-geographical and smaller area-research.

b) Development policy adequate to the criteria of the sustainable development on the Plain. The water- and *air-pollution of industrial origin* – which is significantly decreasing in the region, the declining utilisation of agricultural fertiliser and chemicals, decreasing large scale animal keeping, or land cultivation by heavy machines are unfortunately not the results of environmental-protection technologies and attitude, but those of the *general economical decline and change of ownership*. Therefore at present the most important task is not the further decrease, but the preparation for the *re-starting of increase*. Those structural-political concepts, legal regulations and economic stimulates should now be established which enable the planning of a new increase in fields and the prevention of the previous mistakes.

The *economic change of regime* being formed now can effect the improvement of environmental conditions. However it should be considered that the *ownership deconcentration* of the industrial and agricultural production deconcentrates the environment-polluting resources as well, exceeding the allowable environmental limit. Therefore each steps should consciously be taken in order to connect the change of ownership with the *improvement of environmental conditions*. During *industrial privatisation*, environmental audits, and environmental neutralisation should be connected with the changes. Also during *agricultural compensation and privatisation*, preferences should be enforced which favour certain land use.

Maintainable development should be reinforced by *economic means*. The *environmental protection penalty* cannot be the proper means. Therefore according to the interest of local society, the old and new owners *should have an interest* in land utilisation appropriate for the ecological and pedological requirements, first of all by *providing certain benefits*. The price support of the agricultural chemicals greatly decreased at the end of the eighties, but the enforcement of the *environment-protective preferences* should invariably continue in the consumer and sales tax system as the fundamental form of environmental protection regulation. On certain areas it is reasonable to maintain the *administrative and prohibitive regulation* as well, but it should be in accordance with the new ownership and owner's rights. In respect to the *protection of the natural and cultural values* the primary danger on the Plain today is the danger of it becoming uninhabited and unowned. As for settlements which have a lot of architectural, national, cultural memorials; proper use, maintenance, and the rehabilitation should be supported by several means. The maintenance of the vitality, the economic support capability of those settlements, and populated places which have cultural historical values, should be an advantage in employment policy and creation of working places.

The government and its regional authorities, and the local authorities on the Plain should serve maintainable development in their *international connections and activities*. This could mean the promotion of agreements on (water and air) pollution ex-

tending over the border, or on the other hand ensuring a priority for the environmental, area-development projects in agreements on professional-scientific, technical and financial aid, collaboration – with developed countries.

c) The research made on *the complex use of the facilities of the Plain, and the establishment of a competitive economic structure, prove that the territory has no unambiguous advantage or favourable facility which could solely determine the development tendency of the region.* From time, to time besides the favourable characteristics of the agriculture, there is damage and market problems and the tendency toward drought, all of which increases costs. The reserves of subsoil wealth and hydrocarbons are becoming. As a result, on the Plain not only one feature but a *defined combination of the features* can and should be considered as a base.

Among these the most important feature is the *human factor*, the *society*, the man on the Plain. The general regional development tendency that parallels the devaluation of prices for mineral resources, and the agrarian ecological potential on the world market the human factor, its education, ability, discipline, organisation, attitude toward work and diligence becomes the most important production factor, the determinant of competitiveness. On the Plain, especially in its former country towns, *private cultivation* (enterprise) and *the private ownership* can be stabilised sooner than in other parts of the country. In most of the areas the *religious traditions* can effect the development of a work-centric, accumulation oriented attitude. (This shows for example that 45 per cent of the compensation demand is concentrated in five counties on the Plain where only the 36 per cent of the agricultural territory can be found.) The fact that density of population became nearly as high as in the industrial areas facilitated the development of intensive, agrarian cultures with a demand for labour. At the same time the working population of the Plain has *unfavourable characteristics* as well. Its average level of qualifications is lower than in other big regions of the country and the ratio of marginal labour is considerable.

The other special feature is the *settlement network*, which is unique in Europe. The concentration of the agricultural population in such big settlements with defined urban functions can make the development of industrial and post-industrial social structures easier and more executable, and the development of the civilised-infrastructure and institutions cheaper. The order of magnitude of the majority of the settlements on the Plain is sufficient for the running of one or two small- or middle-sized industrial units which mean the most important bottle-neck in the structure of Hungarian industry. Therefore the programs and retraining of this unit size – ensuring the acceptance of new economic sectors and promoting adaptability – can have an important role.

It is beyond all questions that on the Plain the *agriculture will always be* a national economic sector of *determinant* importance. Within the country, but also in Europe, this will be one of its specialisations and at the same time it is clear that agriculture alone, or as a determinant economic sector, cannot solve the problems on the Plain. Therefore with the combination of the environmental and economic aspects, a *new agricultural strategy with a new base and attitude should be followed which at the same time shall mean new utilisation the of land, product structure, land cultivation, meeting the market demand and partly self sufficiency.* The process can be initiated by various demonstration farms in the field.

The characteristics of the Plain, arising from the *European location and geographical neighbourhood*, have advantages and disadvantages. Regarding the *international regional connection system*, the Plain can have an integrating role in the

future. Since half of the territory of the natural area extends over the borders, it can have a key role in frontier collaboration, the externalised effects of the extending transit traffic and in the Carpathian Euroregion, initiation, modelled on the Alps-Adria.

d) *The solution of the acute social and employment crisis on the Plain* is an important task because the slow closing-up process of the region came to a sudden stop at the beginning of the nineties. The worsening of the relative situation of agriculture, and the loss of the eastern markets effected the Plain more seriously than other parts of the country; while the former "socialist" economic structures collapsed and declined in each part of the country, in respect to the development of new structures (company establishments, smaller enterprises, joint ventures, working capital import) sharp differences came into existence between the eastern and western parts of the country and between the capital and the country side. Several regulating elements (e.g. taxes on labour-intensive business sectors, decrease in agricultural benefits, etc.) proved more disadvantageous for the Plain. In 1992 further significant decline of the situation on the Plain happened which accelerated that the collapse of the Plain. The number of the industrial, building industrial and agricultural workplaces registered on the Plain were dramatically decreasing. In total it means that 300 thousand of workplaces were lost on the Plain in organisations with more than 50 employees within two years. The ratio of unemployment greatly exceeds the national average.

All of the three sources of income which ensured a sufficient living standard for the families who lived in the former country towns and villages, the main non-agricultural (industrial, building industrial) workplaces, the common farm and the household plot, collapsed at the same time. We should take into consideration the fact that today the Plain is wrestling first of all with acute employment, income and financial problems. Without a long-term, well-defined and state promoted program, the collapse of the Plain, compared with western parts of the country, will increase unavoidably. Furthermore this can be a pull-back for the closing-up of the region and for the execution of each development principles which were mentioned above.

On executing the research program several manifestations of the society on the Plain proved their readiness to accept a program which is of new structure, building from the bottom and serves regional and country development purposes.

Country development tasks of the near future

On the basis of the above-mentioned, the strategic tasks for the development of the Plain can be as follows:

- in the area of *land utilisation, country utilisation*, three methods of land utilisation which are favoured in respect to the environment and country-protection should be increased by at least 10 per cent by the year 2010 *grass, forest, water surface*, should be fitted into the *green-corridor system* to be build on the Plain;
- *Agricultural production* should be based upon land economy – mixing the Hungarian traditions and the requirements of the world market – and its up-to-date system of conditions, and the protection of the environment;
- *Industry* should establish new branches on the Plain – mainly units of small- and medium-size – using the specific settlement structural-social facilities of the region;

- In the area of *infrastructure*, besides bringing-up the basic supply to the national average, both the international and the national road and railway connections should be developed. The development of the subordinate (agricultural) road-system is also unavoidable. The development of the telephone and other communications and information networks is the precondition for the integration of the whole region
- In the area of the *settlement development*, the replacement of the missing settlement infrastructure-investments is the most urgent task. At the same time it is necessary to strengthen the integration of small area based collaboration between the towns and their rural surroundings, renewing the requirement system of settlement planning and development. On a long-term basis it is necessary to deepen the intellectual urbanisation of the towns on the Plain and its extended effect, considering that the "uniqueness" which can be expected from the development of the small area (town-country) requires the appearance of new economic, social, and institutional participants necessary for the preparation of new methods and for modernisation;
- The development of *tourism* on the Plain, based upon specific values (thennal, green, farm-village tourism, "Lake" Tisza and the national parks) should be undertaken by organisations which are able to utilise these facilities in smaller areas;
- Regarding the *international regional connection system* the Plain can have a promoting, and integrating role. Since half of the territory of the natural area extends over the borders, it can have a key role in the frontier collaboration, the externalised effects of the extending transit traffic and, in the Carpathian Euroregion initiation, modelled on the Alps-Adria;
- In the area of the *system of economic means*, the primary requirement is the significant increase in Country Development and Employment Funds and its proportional allocation to the Plain. The direction of the international support towards the Plain could be a goal as well, following the indication and acceptance of the conceptual elements mentioned above. *Finally the participants of the above regional development should be found.*

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PART FOUR

**MARKET-ORIENTED REGIONAL POLICY
AND PLANNING**

22 REGIONAL AND URBAN DEVELOPMENT IN HUNGARY UNTIL 2005*

GYÖRGY ENYEDI

Introduction

The objective of this study is to draw up scenarios for regional and urban development until 2005. These scenarios remain within the limits of a “realistically optimistic” development in the society and the economy. They are based on different alternatives of geographic processes begun in 1989 (sometimes earlier) whose elements can be deemed lasting.

Regional processes depend on the growth of the economy and the trends in the transformation of society. These, I take for granted in conformity with the realistically optimistic scenario, i.e., the economy will start to grow soon; the pace of growth will be quicker at the turn of the century if the external conditions will be propitious; and, by the end of the period under examination, the earlier trends in development and growth will prevail again.

This will help close the gap that opened so quickly during the past 3 to 4 years, and we will lag behind Western Europe “only” as much as we did in the second half of the eighties or, perhaps, a little bit less. The present trends in the transformation of society, privatisation and the building of democratic institutions will continue.

Major factors that have an effect on the regional (urban) process are as follows:

- a) the structure of the economy (by sectors and in some of the pre-eminent activities) and its geographic location,
- b) the population with its demographic, occupational and educational structure,
- c) the transformation of the production system (and the operation of the companies); new economic space,
- d) development of the infrastructure,
- e) international integration; crossbred ties in the economy,
- f) environmental concerns; limits due to environmental factors.

The above factors may be combined at different regional levels. The path of development of these regional units should also be examined. The main dimensions are as follows:

- a) the relations between Budapest and the rest of the country; Budapest in the international system of relations,

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- b) development in macro-region (Southern and Northern Transdanubia, Northern Hungary, the Great Plain, and international macro regions),
- c) small area/medium regional level (some special cases as well, such as crisis regions),
- d) transformation of the settlement system (transformation of the local centres, the so-called socialist cities and the villages)

Hungary's present regional structure may be characterised by the following:

1) The small country is homogeneous from an ethnic, linguistic, and historic point of view. The population also shares the same history. Over 90 percent of the people speak Hungarian as their mother tongue. Hungarian language doesn't have regional dialects that differ considerable from the accepted standard. Traditionally, the country has a uniform, centralised public administration system. The autonomy of the regional units is weak, and there are no tradition of federalism. Regionalism is weak within the country. Homogenisation was especially writ large in the socialist era; now the pendulum has started to swing back.

2) The most characteristic trait of the country's structure is its monocentric nature. The capital has a very large population share (about 20 percent of the total population). It plays a much bigger role in the intellectual and cultural life and politics than would be warranted by the size of its population. Budapest is the only big city in the country, and, in a way, the entire country is its periphery.

3) The most characteristic feature of the regional development status of the country is the difference in development between the western and the eastern parts of Hungary. The Danube river is an important dividing line. In recent years, this contrast has become more pronounced. The Great Plain, covering about one half of the country's area, is a traditional agricultural region. Industrialisation carried out during the sixties and the seventies also failed to modernise the Plain. It commands special attention due to its peculiar ecological and human settlement conditions that are so much different from that found elsewhere in Central Europe.

4) There are crisis stricken smaller areas within the larger regions, such as:

- a) Agricultural areas poorly endowed by nature: they are mostly mountainous and hilly areas with agricultural activities where there is no other kind of economic activity due, mainly, to their isolation from the main traffic arteries. The decrease in the population in these areas has been going on for quite a long time, and there are many depopulated villages or hamlets where only the old stayed behind. The socialist system tried to sustain agricultural production with little success. The depopulated villages and hamlets have been taken over by marginal elements, mostly marginalised gypsies;
- b) A cluster of settlements that have a backward infrastructure and that are isolated from the point of view of transportation and that have a very limited access to public amenities are, sometimes, coterminous with the above areas. They are located, partly, in the south-western and north-eastern parts of Hungary (occupying, partly, the same areas that are identified under item a), and, partly, in the so-called inner periphery of the country, that is, in the central part of the Great Plain (Mid-Tisza region, and the Berettyó region) ;
- c) The areas along the borders of Hungary had generally been, until recently, undeveloped. Following the peace treaty signed after World War I, Hungary lost two thirds of its former territory. Most of the areas that lie near the present

borders, lost their erstwhile urban centres. The development of cross border regional trade relations were hampered, first, by the unfriendliness between Hungary and the neighbouring countries, then by the closed borders during the decades of socialist rule;

- d) The obsolete heavy industrial and mining districts which spread to large areas and had lots of employees as a consequence of the socialist kind of industrialisation. The structural crisis is accompanied by a high rate of unemployment and the collapse of the entire economy of towns there;
- e) Environmental crisis-areas which are partly coterminous with the areas identified under item d), and which are today partly connected with dynamic urban regions. The environmental crisis management doesn't yet receive the attention today it deserves.

It is within this kind of regional structure that the new regional developmental processes have been started. To set their course to a certain extent, new regional policies that differ from those adopted in the former era have been prepared.

Regional inequalities at the beginning of the nineties

Three kinds of factors play a role in the system of regional inequalities from the point of duration:

1) Factors on a historic scale that show territorial stability. They may shape the region affected by them for centuries. Such are the factors of physical environment, the basic system of the settlement network, the value system and forms of behaviour of the local communities. Historic factors (with the exception of the natural environment) operating in the Hungarian context originate, mostly, in the 19th century. Such is, for instance, the network of towns, and, especially, the traffic network whose effect should be assumed in our scenarios as hardly changing.

2) The demographic structure and educational background of the population present us, e.g., with a long-term factor that decides the fate of regions for decades. Although they change constantly, but quite predictably until 2005, in relatively narrow ranges. The changes that occurred in the settlement structure during the socialist era e.g., the new ("socialist") towns, or a significant expansion of the urban network, and the contraction of areas with isolated farms will continue to have their effects felt, until 2005.

3) Up to date, short-term movements whose discrete elements will exert, as a matter of course, their influence for a longer period of time to come (the change in the political system, the effects of the transition to the market economy on the settlement structure). These changes are, for the moment, very lively, and future scenarios are built especially on the differences between up to date changes.

As to the scenarios worked out for the future, we have to deal, most of the time, with stable and determined elements, and, for this reason, the regional and urban development scenarios do not show at all a variety shown by political scenarios.

Basically, the regional processes that were set in motion in 1989 are moved by the transformation in the market economy. We consider these to remain stable for the next decade and a half.

The main characteristic of the transformation in the market economy is regional differentiation, an increase in regional inequalities. Already in this incipient stage of

the market economy, the advantage of certain regions came clearly to the fore for efficient investors and profitable enterprises. These advantages were inherent in the level of the infrastructure (especially in the area of communications), the geographic location of the region, the educational achievement of the population and in a sensitivity vis a vis the modern development of a civil population.

A special trait of regional differentiation is that it is proceeding in the midst of a deep economic recession (GDP fell 10 per cent in 1991, and 5 per cent in 1992). A result of the recession is that the crisis phenomena that were manifest in the eighties were continuously spreading geographically. The Hungarian economy experiences the earlier restructuring in Western Europe in such a way that also the modern industries have lost with the collapse of COMECON, a large part of their markets. The reason is that in these industries too, there was over employment, and they are technologically backward compared to similar industries in the West. The elements of an economic renewal and innovation appeared strongly concentrated by regions. This is especially pronounced in the polarisation of the capital city versus the country. Strong dynamism is shown by the regions alongside the Budapest–Vienna axis. Some industrial districts have also been able to keep its revenue-generating and exporting abilities.

The developing market economy revives the traditional division between the western and the eastern parts of the country. On the basis of the most varied combination of economic indicators, the difference between the two parts of the country can be demonstrated. There are four factors that account for the valued advantages of the Western part of the country: the reassessed dynamics of the region along the Austrian border, a relatively quick transformation of the bigger towns in the western part of the country, the tourist attractions of Lake Balaton, and the tentacles of development reaching out westward from the capital. The entire length of the Danube constitutes a pivotal axis for an economic renewal.

Regions in crisis situations are of several kinds. One of the crisis-ridden zones is North-Eastern Hungary, characterised by a general backwardness in infrastructure and in its society, an agrarian character and a high rate of unemployment. The area is joined, practically in an uninterrupted way, to the borderlands in the East, and the areas along the borders with the Ukraine, Eastern Slovakia, Rumania and the former Yugoslavia. Foreign capital has stayed away from these peripheries.

The inner peripheries have developed in the internal part of the country (especially the Great Plain).

Finally, the country's traditional industrial axis that follows the Hungarian Middle Mountain Range in a north-eastern–south-western direction, from Borsod-Abaúj-Zemplén county to Zala county, is almost entirely a depressed area.

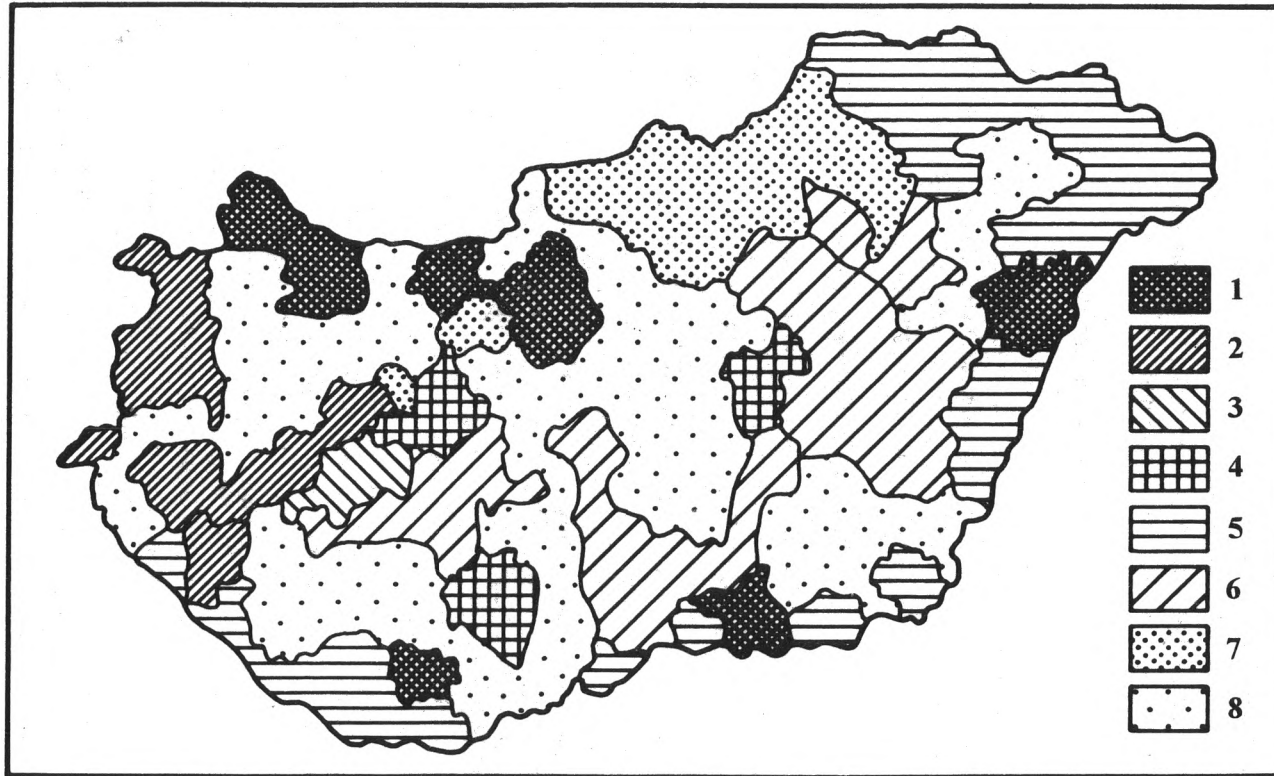
An analysis carried out at the level of the urban districts has defined different types of "economic health" (*Figure 22.1*). The Figure shows the geographic distribution of eight types of regions:

A) *Areas with promising prospects:*

- 1) Dynamic poles and axes (Budapest and its agglomeration; the largest county seats, and the Danube line),
- 2) Regions along the Austrian border,
- 3) Tourist regions,
- 4) Stable, industrialised districts.

Figure 22.1

Types of regions in Hungary, 1992



Key: 1=Dynamic poles and axes; 2=Upgraded Western Hungary; 3=Balaton tourist region; 4=Stable industrial regions; 5=External periphery; 6=Internal rural periphery; 7=Regions with industrial depression; 8=Unstable areas with medium-sized center.

B) *Crisis regions:*

- 5) Outer periphery (north-eastern Hungary, eastern border region),
- 6) Internal rural peripheries,
- 7) Depressed industrial regions.

C) *Regions with uncertain outlook:*

- 8) Unstable urban regions (the surrounding of mid-size towns, and the areas of Pest county that lie in the Great Plain).

Future scenarios

Based on the different alternatives of the elements (remaining within the realm of a realistically optimistic socio-economic scenario) of regional development, three scenarios may be prepared which, in essence, differ from each other due to regional inequalities. The three scenarios are: polarised, average concentration and deconcentrated regional development (*Table 22.1*). Their short characterisation follows.

The polarised development scenario (A)

- a) A decline or stagnation of the economy will be a drawn out process (as a result of internal troubles or the European recession), and selective growth will start only at the end of the decade, and it will reach, even after 2000, an annual rate of 4 to 5 per cent.
- b) During the restructuring of the economy, only some groups of large enterprises attracting large amounts of foreign capital (concentrating on a few products rather than on entire industries) would register dynamic growth. The crumbling of the heavy industry would continue, and lots of knowledge based industries, or industries that manufacture modern products would be unable to replace the lost markets in the East as a result of their weakened competitive positions. The ratio between low value-added products and commissioned labour remains high in industrial export.

Agriculture would be trapped in a drawn out crisis situation due to the way ownership is changing, the slow development of the new forms of production, the fragmentation of the land, and the loss of the Eastern markets. It then would concentrate mainly on producing for the domestic markets, and the agrarian population would produce in order to satisfy its own need.

In the tertiary sector, the high-level production services (banks, financial services, capital market, stock exchange) will continue to have their concentrated presence in Budapest. The structure of higher education and the institutions of research and development would become less fragmented, and, as a result, its geographic location would become more concentrated. The services offered to the population would undergo a significant expansion only in the dynamically developing regions. The public services rendered by the state would recede.

Multinational companies would acquire overwhelming influence in the company structure and the sphere of large enterprises, but the centrally directed state sector would also retain considerable weight. Medium sized companies would develop to a limited extent, and the small companies would gravitate toward large markets. A lack of capital and markets would put up obstacles to the establishment of private enterprises in the crisis regions.

Table 22.1

<i>Development scenarios</i>		
<i>(A) Polarized regional development</i>	<i>(B) Medium concentrated regional development</i>	<i>(C) Deconcentrated regional development</i>
1 Long stagnation, slow growth from the end of the 1990's	Growth will start soon and will reach 3 per cent/year	Rapid growth (over 5 per cent/year) after 2000
2 General decline, few new dynamic sector	Knowledge based industries, agr. export	Large scale industrial renewal, agribusiness
3 Migration to dynamic areas, high unemployment	Migration within urban regions, high unemployment	Limited migration, low unemployment
4 Weak networks, traditional economic regions	Selected regional networks	Developed (incl. transborder) networks
5 Development of telecommunication, unchanged transport axis	New East-West lines	New interregional axis, housing boom
6 Slow approach to EU, weakened ties with Eastern Europe	EU membership, renewal of Eastern trade	EU membership, partial integration with post-socialist neighbours
7 Environmental deterioration, imported damages	Sustainable development	Sustainable development
8 Weak regional policy	Innovation-poles in the periphery	Strong regional governments
9 GROWING REGIONAL INEQUALITIES, OUTSTANDING ROLE OF BUDAPEST	DYNAMIC REGIONAL CENTRES, DECLINING PERIPHERY	BALANCED REGIONAL DEVELOPMENT

1-8: Elements of the scenarios, as follows: 1) economic growth; 2) economic restructuring; 3) population move & employment; 4) new economic space; 5) development of infrastructure; 6) international integration; 7) state of environment; 8) regional policy targets; 9: Short characteristics of the scenario.

- c) There would be a migration of the population to the Budapest metropolitan area and Western Hungary.
- d) The development of the infrastructure would remain reactive as a result of the immense pent-up demand for development and the lack of capital. There will be important improvements in telecommunications. The development of the highways and the railroads will bring with it the modernisation of the existing main arteries (e.g., completion of freeway construction already started) and the expansion of their capacity, but the country's basic communication structure will not change.

- e) Efforts aimed at developing integration with the West will continue to target the EU, although Hungary wouldn't become a full member of the community. The economic ties with Eastern and East Central Europe would remain weak and ad hoc due to the protracted crisis of the post socialist economies and, perhaps, the instability or unfriendly political relations with the neighbouring countries. The Hungarian economy keeps conforming to EU interests.
- f) The protracted recession of the economy will thwart a restoration of the damaged environment. The economic activities and the regional concentration of the population will increase and, as a consequence, there will be additional strains put on the environment, and the condition of the environment will be critical exactly in the regions that will undergo rapid development.
- g) Social inequalities will be growing quickly. Large parts of the population will be impoverished, with many falling through the wide meshes of the social net. (However, geographical differences in the living conditions will be less acute than the economic differences). The rate of unemployment (above 10 per cent) will stay high, and the number of those dropping out of the labour market definitively will be high too. The enrichment of the middle-class will be slow, and its situation will become uncertain. Serious social inequalities will generate social tensions, and the internal stability of the country will deteriorate. Poverty and marginalisation will become widespread in some of the regions.
- h) A major increase can be expected in the levels of development between regions with favourable potentials and the crisis regions. The gulf will widen especially between category 1 and category 5: North-eastern and Eastern Hungary will lag the farthest behind the rest. However, the nightmare of a country split along a line of development will not materialise, as the economic ties of the dynamically developing regions won't be severed from the less developed regions, and this will keep a rapid decline in check. The positive side of the process will be Budapest and Western Hungary that will grow into an economic area with modern infrastructure and a tertiary economy. Its development will be guided by the use of innovations, and it won't be able to absorb the surplus of the active population migrating away from the crisis regions. Migrants will arrive to the Budapest agglomeration who will find no employment in the formal economy, and, this way, the number of homeless people and those finding employment in the black economy will increase. Budapest will become an international city that will especially attract foreign capital and international companies, and the concentration of high level services will continue to grow. Budapest will, again, rise above the rest of the country not so much as a result of its internal political power but its international ties and its integration into the network of European urban centres. A concern frequently voiced that says that Budapest will be isolated from the country like a third world capital is unjustified. The Hungarian capital is the centre of the nation's economic networks (companies, and it radiates its dynamism and innovations through these networks. Inversely, the decline of the country's economy also has an effect on the capital. According to this scenario, the economy of the older, depressed industrial districts will crumble and its population drop. Pauperisation and unemployment will affect most severely Northern Hungary and the periphery of the Great Plain. Regions belonging to categories 4 and 8 may also begin their decline.

This polarised regional development will bring other cities into favourable position as well, especially in the Transdanubian part of the country, but also several medium and large cities in the Great Plain area. The network of small towns will stay very unstable, but, in general, urbanisation as a process will gather momentum, and the percentage of the urban population will approach 70. Villages outside urban areas and dynamically developing axes will decay, and the depopulation of hamlets and isolated farms will become more pronounced.

The regional development policy of the government will not have any major influence on the geographic processes. To start economic growth as early as possible, the government will offer not only programs aimed at regional equalisation, but will also support innovations, technological developments and the establishment of enterprises that will be taken advantage of by the regions that are already in a better position. Its basic principle is self sustainable development which is also limited by the lack (or weakness) of regional governments or the redistribution of regional equalisation funds.

Medium concentration development scenario (B)

- a) Economic growth will start in 1994, and it will reach 56 per cent at the end of this millennium. The pace of growth will not be uniform throughout the country, but there will be growth everywhere.
- b) A renewal of the economic structure will be accompanied by a technological change. The new economic structure will be characterised by not only the decay of the obsolete industries (products), but also by a significant breakthrough of certain new industries. Sectors requiring high intellectual content and high level professional tradition, such as the machine tool and the pharmaceutical industries, as well as new industrial activities, will be established in Hungary that will have a multiplier effect, such as car manufacturing (and, partly, the consumer goods industries). Part of the traditional chemical, iron, steel, and heavy industry sectors will be gone for ever, and the remaining part will undergo a quality-technological change. The food processing industry will keep its importance.

In agriculture, there will be a modest volume of exports, with considerable added value, and the product mix will be valuable, and the quantity of products exported will represent, as before, an economically significant factor. The specialised traditional agricultural regions will be rebuilt in a modern structural form. In the company structure of agriculture, large family enterprises will develop, with an efficient combination of the part-time farms; the production systems will be renewed just as other integrated organisations.

Within the tertiary sector, a high level (quárternerj) services will be developed mainly in Budapest, but there will also be important regional centres as well (especially big cities in the country). These cities could also fulfil a role as an entry point for their own region and for the neighbouring regions along the border (e.g., Debrecen for the Northern Trans Tisza and Western Transylvania regions). This role as an entry point would consist partly of western capital, technology transfer, the operation financial and educational subcenters and institutions, and, partly, of distribution of Hungarian technical and social organisational innovations in the

neighbouring East European countries and the operation of the subcenters of East European investments in Hungary. Technological and industrial parks as well as applied research centres would connect to the growing university centres in the bigger cities, and this would attract the industries and foster development.

Services offered to satisfy the needs of the population would find an expanding market with the accelerating pace of economic growth. The quality of public services would grow. Their operation would be partly by private entrepreneurs, and the government's role would be limited to guaranteeing the continuity of these services.

- c) The migratory movements within the country would be at a smaller scale, and they will tend to be limited to intra regional migration, and its direction would be towards the local urban centres. Migration would be characterised to a growing extent by the job related mobility of the skilled and educated part of the population.
- d) Within the development of infrastructure, telecommunication would spread in general, and the scope of the services would expand significantly. (Arteries facilitating interregional ties would appear in the traditional traffic network: new bridges would be built and secondary railroads would be reconstructed. The country's transit capacity would grow together with the role of the Danube as a transit line, and domestic air services would be developed. Cities in the countryside would have a more important role to play in international traffic.)
- e) The international integration efforts would aim not only at the EU countries although a full membership of Hungary is also conceivable in the period considered here. It is highly probable that Hungary would be the eastern periphery of the unified European market (under the present conditions, a full membership status for the countries of Eastern Europe is outside the realm of the possible within the next 12 years), and this would enhance Hungary's role as a point of entry. A renewed strengthening of the East European economic ties would improve the locational value of the areas east of the Tisza river. Hungary could play a role of initiating the development of sub regional ties within Central Europe or, perhaps, between Central and Eastern Europe.
- f) Society's sensitivity to the environment would grow together with the clout of ecological pressure groups. They can become the initiators of investment in environmental protection in Hungary and later they could find important markets in Eastern Europe. The export orientation of agriculture also favours environmentally-friendly farming. Essential improvements in mass transportation could reduce air pollution in the cities. However, regions can develop that will have a critical environment, and these crisis regions could be a permanent fixture on Hungary's environmental map. The supply of drinking water and the deposition of waste material are growing problems. The increase in the consumption of households also increases the emission of waste materials.
- g) Considerable inequalities in revenues will develop. Civil society will grow stronger, and the number of middle-class owners will increase, and the income situation of the positional middle-class people (employed intellectuals) will become better. A massive impoverishment of the population will be checked by the revitalisation of the economy and the government's social policy. Unemploy-

ment will remain high (about 10 per cent), and a part of the unemployed population will become marginalised, and will disappear altogether from the labour market. (The relatively significant economic growth will not cause a perceptible change in the unemployment situation, since the growth will be caused essentially by technological improvement. In most of the EU countries, the rate of unemployment, even at today's level of development, is around 10 per cent, not to mention the poorer member states, such as Ireland and Portugal where the rate is about 20 per cent.) However, it is expected that poverty will not appear massively in certain regions.

- h) The geographical concentration of regional development is not as strong as in the case of scenario (A), but, basically, it can still be characterised as a concentrated development if the quality elements and the commanding heights of the economic growth are tied to the Budapest metropolitan area and the western part of Transdanubia. The main difference is the stabilisation of the medium sized city regions and the appearance of dynamically structured hubs within the crisis regions. In the industrially depressed districts, we can expect a renewal of their economy based on the developed infrastructure and the educated population. (In the developed industrial countries, the former industrial regions shaken by the disappearance of the smokestack industries have rarely managed to stage a comeback, and the new dynamic districts have developed in the formerly rural zones such as in Southern California, Southern France, etc. The new industrial districts have emerged simultaneously with the disappearance of the old industrial districts (old industries). Notwithstanding, the infrastructure of the Hungarian countryside is undeveloped. There are only a few places where the dynamic economic structures can be operated, and these structures are not yet in place. (All of this may prompt the renewal of the depressed areas.) The development of dynamic centres could occur in the peripheries of the Great Plain, in specialised agricultural districts, and the nodal points of East European trade relations along the borders. These centres will chop up the presently contiguous crisis zone of the peripheries and they can induce development in a broader context.

Budapest will acquire a significant role as an international metropolitan centre. It aims at becoming a financial, cultural, and scientific sub centre in the competition between cities in the Central European area. Its role as an economic mediator toward Eastern Europe could also be important. It is possible that Berlin will become Central Europe's first (and only) global city, and Budapest will join as a satellite that will have important functions as a regional sub centre.

The network linking medium and large cities outside Budapest will also be reinforced. Their economy will be more independent, and their dependence on the capital will be weaker. These cities (or some of them) will take part, directly within their own category, in the competition of European cities, mostly to attract capital. A part of the cities in the country will develop ties beyond the borders.

The number of modernising villages will be higher than in scenario (A) partly due to the bigger role that agriculture (and/or the food processing industry) plays, and, partly, more city centres in the country will develop agglomerations or will exercise an effect on its surrounding area which induces growth. Within the

peripheries and the depressed areas, the decline and the depopulation of the villages will remain widespread.

The regional policy of the government aims, basically, at regional equalisation, although it doesn't interfere directly with the economy since it is a market type policy. It wants mainly to improve the chance of the peripheral zone (in terms, e.g., of the development of infrastructure) and to prevent massive pauperisation on a regional scale. The economic autonomy of the local governments and the decision making competency of the regional local governments would be strengthened.

The scattered development scenario (C)

- a) Economic growth would start again in 1994. The rate of growth would be higher toward the end of the millennium. Thanks to the favourable external conditions, growth would become quicker (an annual 8 to 10 per cent), just like it was after the war during the era of reconstruction until it reached the end of the growth trend interrupted by the recession of the eighties. These favourable external conditions may be: a boom in the European economy, EU membership, and, as a result, the securing of considerable support through EU's regional development fund (that was the reason why Portugal's growth picked up following its membership), and the presence of East Asian investors. This scenario is contingent upon a large amount of foreign capital and an expansion of the market.
- b) No entire industries will be scrapped, only products and product groups. Technological revitalisation is more important than the narrowing down of the industry's scope of activities. The coming boom will engender a versatile industry: the knowledge-intensive and the "green" (environmentally-friendly) industries will represent the engine of growth, but the renewal process will also cover some of the heavy industries and consumer goods manufacturing industries as well.

As a consequence of the dual orientation of the agricultural market, agribusiness will be considerably export oriented: it will be represented by high value-added and specialty products within the EU, commodities, know-how export, and an expansion of the production systems in Eastern Europe. Such agriculture would give incentive to the expansion of the food processing industry and increased employment in the production-service sector of the food industry.

In this scenario and in the tertiary sector – in addition to the unconditionally necessary expansion in the production and the high level (quarternary) services – public services would also develop especially in the areas of education, public health and mass transportation, generating various new employment opportunities. A good part of the public services will be offered by private businesses that would operate as legislated.

- c) The movement of the population other than job related mobility and the retirement of the elderly to rural areas would remain within small areas. The population of the large cities would contract, and their suburban belt would widen. The urbanisation axes would connect, and there would be a large amount of migration toward them, but the population would not concentrate in certain settlements.

- d) In the development of the infrastructure in addition to the hypothesised general development in communications, two new elements could be expected. One of them is the interregional connections that positively modify the country's Budapest-centred traffic structure (southern highway and/or similar railroads) and the definite integration into the big European communication systems (through east-west transit lines). The other one is the significant revival of apartment building activities in much of the urban network, with the attendant effect of reinvigorating the economy and assisting regional mobility.
- e) In the development of international integration, the development of ties to Eastern Europe would be bigger than in the case of scenario (B), that is, genuine integrationist ties would be formed with the Slovak Republic, Rumania, perhaps with the Sub-Carpathian region (in case of certain regional autonomy), and the old economic ties with Yugoslavia would be reconnected. In this quite optimistic scenario, the openness and intensity of the economic ties that develop over the eastern borderlines would be similar to the relations between Burgenland and Western Hungary at the turn of the eighties and the nineties.
- f) It would be possible to secure the elements of sustainable development: an increase in the consumption of services (instead of an increase in the consumption of products) would facilitate this; an increasing standard of living would also increase the demand for spending one's leisure time in an attractive natural environment: the improvement of the environment would become an important social value. This picture would be contradicted if the environmentally-friendly industries could not occupy their proper place in the renewed structure of the economy (this will be determined by the market relations); if east west transit will mean a massive flow of goods; if the strong export orientation the agricultural production continued to use technological processes that would damage the environment. The scenario presupposing a rapid growth is not necessarily advantageous from the point of view of the environment however. The effects would cover a wide area and would not concentrate only on some selected regions.
- g) In this scenario for a deconcentrated development, the differences in the living conditions of the population, its social structure, and the sizes of the revenues are moderate. Society is differentiated. There are the poor, but they are not concentrated in certain areas; they do not represent the majority of the population in any of the districts; they represent a minority everywhere and can be taken care of through local social policies. The population of the regions that will seem to lag behind forever will wane, and the adverse living conditions will afflict only a limited number of people.
- h) The economic, infrastructural, and social development would be present in all regions of the country, although this development would not be uniform throughout Hungary. Western Hungary and the Budapest metropolitan area would also be pre-eminent among the dynamically developing areas. The main characteristic would be the revitalisation of the depressed industrial regions and large parts of territories in the Great Plain starting to close the gap. The crisis regions would remain on a small scale, and they would be limited to depopulating and isolated village areas especially in the periphery of the Great Plain.

The changes in the settlement network would be identical to those described in scenario (B); the network of small cities would close the gap; the revitalisation of

the cities located in the depressed areas would be general; depopulation would affect fewer villages, and the attractive ghost villages in the Transdanubian region and in the eastern part of Borsod county would be populated again, simultaneously with an improvement in the communication situation.

Deconcentrated development may also be promoted by regional policy. This regional development policy is of a strongly social welfare type, and it helps, first of all, a social equalisation with the assistance of regional public services or a social policy. Deconcentrated development would require relatively strong regional governments (at the county level or at the level of a group of counties), which would take over many functions exercised today by the central government. The local and regional governments would have more financial autonomy; the government's budget would play a lesser role in urban development, and the budget would have a diminished redistributive function.

The point of departure of the scenarios is that the extent of regional inequalities depends basically on the starting time of an economic renewal and its degree as well as the regeneration, if the former ties connecting the countries of Eastern Europe and, within them, the ties Hungary will have to the bordering regions. In theory, it is conceivable to have a strongly concentrated regional growth (Budapest's one-sided prominence); however, there is already a system of regional ties and a settlement network in the country which are able to transmit economic dynamism, and the market economy based on the majority of private ownership cannot have an extreme concentration either, as it would make the economy less efficient. Budapest is advantageous for the large companies; however, the small and medium sized cities are better suited for the small and medium sized companies (presupposing a proper level of infrastructure. Already today, the geographic dispersion of the some 600,000 individual businesses is much more even than (although they mostly operate in cities) that of the large enterprises.

The other equalising factor is less certain in its influence on energising the economy. This energising depends mostly on non economic factors; in addition, it would have a revitalising effect on the north-eastern periphery only if it also spreads to the neighbouring regions. Flourishing relations with Kazakhstan and the Baltics don't have an immediate effect on regional development.

A scenario change is quite likely during the period considered. For the near future, scenario (A) (polarised development) is probably the best approximation to be replaced, in the coming millennium, by scenario (B) or perhaps (C). (The scenario mentioned last would be a reality only under the most favourable circumstances.) All the three scenarios satisfy the "realistic-optimistic" conditions: they are optimistic since they don't assume catastrophe or a protracted and deep crisis situation, and realistic since they don't envisage quick equalisation between Western and Central Europe. Equally, the assumed annual rate of growth in the GNP can be realised without any economic miracle happening.

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23 SUSTAINABLE DEVELOPMENT IMPERATIVE

RICHARD V. KNIGHT

New responsibilities for cities

Cities and other types of human settlement, so greatly changed by industrialisation, urbanisation and the rise of nation states, are now being confronted and transformed by a new set of economic and technological forces which, though global and universal in nature, can, if understood, provide cities with opportunities for shaping and sustaining their development and reasserting their historic role as a civilising force.

This assertion, that cities can and, indeed, must regain control over their destinies is based on the new paradigm of sustainable development and sustainable cities. The new paradigm reflects the view presented by the World Commission on Environment and Development in *Our Common Future* that "we have the power to reconcile human affairs with natural laws and to thrive in the process and that a new era of economic growth based on policies that sustain and expand the environmental resource base is possible". The recent United Nations Conference on Environment and Development (UNCED) in Rio has reinforced this view. The assertion that cities must play a greater role is informed both by the experience of cities in Europe and North America over the last half century and by in-depth analyses of the changing nature of city development, namely the growing importance of knowledge-based development.¹

The new paradigm is being forged by several different factors: by the advancement of science and technology; by the changing nature of wealth creation; by specialisation and the division of knowledge; by the intensification of global economic forces; by the increasing complexity of interpersonal and inter-institutional relations and the globalisation of production, as well as by a growing awareness that industrial growth with minimal regard for human and ecological values has reached its limits.

This article considers the implications of the paradigm shift from one of industrial growth to sustainable development from the vantage point of cities – more specifically, from that of European cities. We shall ask why it falls on European cities to reassert their historic role as a civilising force, and why this may come to be.

The argument. The logic of the argument runs as follows, the nature of wealth and the process by which wealth is being created and distributed is changing. Production and consumption are becoming more knowledge intensive, the city's role is shifting from industrial production to knowledge-based development, and this implies a fundamental change in the nature of city development. The city's economy is being transformed from that of producing and exporting goods in competitive world markets to that of exporting solutions and knowledge. As the economy of cities shifts from

competition based on low cost, from mass production to competence based on core competencies and strategic alliances, the cultures of cities will have to become more open and less hierarchical, more learning-based and less commodity-based, and more concerned with quality of life and the milieu than with becoming larger in a quantitative sense.

These shifts are driven by the fact that knowledge is becoming the strategic resource in global society and that the knowledge base is becoming the new economic base of cities. Knowledge-based development depends on types of factors different from commodity-based industrial development. It depends primarily on the integrity and livability of cities, i. e. on the integrity of the city's core competencies and knowledge cultures and on the quality of life the city offers. Since knowledge is culturally based and concentrated in cities, these have greater possibilities for shaping their development – by learning how to strengthen their core competencies, their knowledge cultures and organisations that comprise their new institutional/knowledge-base. Cities can, by identifying, anchoring and advancing their knowledge resources and strengthening their knowledge cultures, create conditions conducive to knowledge-based development.

In short, after a century of rapid, accidental, unbalanced and often chaotic growth driven by the expansion of the production sector, city development has the possibility of becoming more intentional and planned. Knowledge-based development provides cities with the possibility of shaping their own development and regaining control over their destiny. In order to do this, cities must increase their understanding of the changing nature of their development and take new initiatives not only at a local and regional level but conjointly with other cities and regions, nationally, transnationally and globally. Why? because as cities become more aware of the links between their knowledge resources, local economic development and their environment, they will have to become more globally and more future oriented; they will have to make some difficult and strategic choices and they will have to become more responsible.

The cities' role: integrating global and local knowledge

The global crisis cannot be managed or resolved either from the top-down by international agreements and protocols imposed by nation-states, e.g. through directives designed to create cleaner factories, cars, etc., or from the bottom-up by grass-roots organisations in neighbour-hoods motivated by a new environmental ethic. If development is to be sustainable, "global knowledge", i.e. scientific and universal values, must be integrated with "local knowledge" concerning cultural and environmental values. The complexity and the diversity of the issues and interests concerned are such that the integration of local and global knowledge has to occur at an intermediate level, e. g. at the level of the city and its region. Appropriate use of technology requires innovative and customised applications which are informed by local knowledge.

It can, therefore, be argued that sustainable development means making cities more responsible for the knowledge resources that are locally based and for the quality of those parts of the human and natural environment affected by the application of that knowledge. One reason is that most types of knowledge are culturally based, are deeply rooted in particular localities where they have evolved historically and have come to depend on the special attributes of these environments for their continued viability and can, therefore, best be understood and governed as integral components of commu-

nities where they were formed and which formed around them. It is not by accident that knowledge resources evolve. There is a symbiosis between knowledge cultures and their home communities.

The presence of knowledge resources in a community does not, however, mean that cities are aware of them. Neither does it mean that cities which are aware of their presence appreciate their development potentials, or recognise the need to integrate them into the local culture so that synergies between different types of knowledge can be realised locally, or that knowledge resources need to be nurtured and governed. Proximity without propinquity is not uncommon, particularly in large cities where mercantile and administrative cultures or defence-related activities are dominant – these activities tend to be highly secretive and restrict open exchange of information which is essential in many other types of knowledge activities. Moreover, traditional knowledge resources are frequently taken for granted and allowed to atrophy.

At the present time, the role of knowledge-based development is not well understood by cities for two reasons: the industrial growth paradigm still dominates thinking about city planning and development, and secondly, knowledge is usually thought of in a very narrow sense, equated with global knowledge, science-based innovation, high-tech activities, and technologies with large-scale industrial and defence applications. Since science-based, techno-industrial development is highly concentrated geographically, industrially and organisationally, few cities can meet the conditions required for such high-level, science-based development. When the range of knowledge considered is broadened to include other types of knowledge such as mercantile, commercial, administrative, ecological, cultural (education, health, tourism, scholarship), industrial know-how, crafts, artisan, creative, performing and expressive arts, etc., knowledge resources can be found in every city, irrespective of size and stage of development.²

Knowledge-based development

The challenge for cities is twofold: conceptual and operational. First, cities must be redefined in ways which explicitly account for their role as knowledge centres so that they can identify their core competencies and assess the development potentials of their knowledge base in a global context. Secondly, the city must formulate and implement policies to strengthen their knowledge cultures and valorise their knowledge resources by creating conditions conducive to specific types of knowledge-based development. Knowledge resources, whether global or local in nature, are values which are highly perishable and need to be carefully conserved.

The present bias towards those types of knowledge which can be structured by high-level organisations and centralised power centres such as transnational corporations and national, transnational and international governmental authorities needs to be addressed because it leads to unbalanced development, i. e. to the advancement of global knowledge but the loss of local knowledge.

For knowledge-based development to be sustainable, diversity is imperative: the integration of global and local knowledge and of economic and ecological systems is absolutely essential. If organisations and authorities are to be made responsible for their actions and for the risks they take, the integration of global and local knowledge must occur at the local level, where the knowledge has evolved, where it is based and where it is best understood, not at some remote and centralised power centre.

Knowledge is a form of power and, detached from its culture can, like any form of power, be abused. Traditions play an important role in the governance of knowledge cultures and cities play a key role in institutionalising traditions. Cities have long memories, a critical quality when governing knowledge resources.³

To summarise, since wealth creation is becoming increasingly knowledge-intensive and since knowledge is culturally based and concentrated primarily in cities, cities must play a role in transforming knowledge into local economic development and in the governance of values on which their core competencies depend.

Cities as a civilising force

In order to become a civilising force, cities will have to gain greater control over their destiny and to do this they must increase their understanding of the nature of their power (knowledge resources), of urban development processes, and of relationships between their development and the environment. Moreover, they must become increasingly aware of the forces underlying specific types of development occurring locally and create conditions conducive to those types of development which are feasible, desirable and sustainable. Furthermore, cities and their regions must, individually and conjointly with other cities with similar knowledge resources become more responsible for the knowledge they develop and how it affects the localities and ecosystems where it is applied.

Given the present state of the world, the idea of intentional and sustainable cities may appear unrealistic. Given the nature of the forces shaping cities, their limited autonomy in many countries and the fact that they have outgrown their administrative structures and tend to be fragmented and reactive, is it reasonable to think that cities can become proactive and future oriented and begin to shape their development? How could they do this? Why should they become responsible? Where could such a movement begin?

The answer is, I believe, soon to be found in Europe. Why? Because the city is a basic European value. Why? Because the city is a basic European value: Europe has a long urban tradition going back 2000 years, and, although the role of cities declined with the rise of the state over the last century or so, cities are still highly valued.⁴ Historically, European cities have had great resiliency, as during the Renaissance, and they continue to have distinctive cultures which could be "refounded". Today, their resiliency depends on how they redefine their role in the "New Europe" and in the increasingly "global society".⁵ Their future will depend on their awareness of the connections between urban values, new forms of economic and cultural development and environmental concerns. It is in the process of this "refounding" of European cities that city development could become more planned and disciplined. The knowledge so gained could then be used to address even more pressing problems of urbanisation and environmental degradation in other parts of the developed and developing world.

It is important to make a distinction between cities and city development in Europe and urbanisation processes in more traditional rural and village-based societies in developing countries. Large urban settlements in the Third World, often referred to as "mega-cities" due to their size, do not necessarily constitute a city in the traditional sense of the term. The concept of a city, in the traditional sense, is as a centre of a civilisation, i.e. an urban agglomeration with sufficient power to provide civil order and to sustain its development as argued by Pirenne. In recent decades, control has

shifted from local communities to the state and from locally-based organisations to large national and transnational corporations, and as this has happened, urban growth has become increasingly unbalanced and uncontrolled.

The growth of mega-cities is propelled by global forces over which neither cities nor states have control. These forces, which underlie industrialisation and urbanisation world-wide and are undermining traditional settlement patterns, are intensifying and are becoming increasingly global in nature. As noted by (*Schumacher, 1973*) in his book *Small is Beautiful* "Successful industrial development in cities destroys the economic structure of the hinterland, and the hinterland takes its revenge by mass migration into the cities, poisoning them and making them utterly unmanageable" The city's hinterland is no longer just the surrounding 'region, it is also becoming transnational and global. Marseilles' hinterland includes parts of North Africa; Berlin's includes the Middle East, Central and Eastern Europe; that of Los Angeles includes Central and South America and the Far East, Tokyo's, Korea, and Southeast Asia, etc.

The point to be stressed is that the sudden appearance and the projected growth of "mega-cities" needs to be treated as a different issue from that of the more orderly development of European cities. Mega-cities are not cities in the traditional sense of the word – their growth is not self-induced and they are not self-governing; their growth represents the breakdown of the traditional village-based society, not the orderly extension and development of city structures or a broad-based social and cultural transformation. As a rule, the later industrialisation and urbanisation begins, the more unbalanced human settlement patterns and the more intractable "urban problems" become. Once an urban system becomes unbalanced and a single city gains primacy, the development of intermediary size cities becomes increasingly problematic.

Towards intentional city development

The intentional development of cities is problematic even in Europe, given the state of the art of city development and the city's lack of autonomy and, consequently, capacities for disciplining and shaping development. Although cities date back over 6000 years, and are what (*Toynbee, 1970*) calls the "anvils of civilisation" and are thought of as having a civilising influence, our understanding of how they became established as cultures and how their development could be sustained in an ecologically viable manner is still very rudimentary.

City development, by its nature, is basically a social learning process. The process, whereby cities learn from their experience, from the experience of other cities, and by innovating, has broken down over the last century or so as power has been centralised. There is a tremendous amount of experience to draw from because every city is having to come to terms with its special situation but few cities have actually institutionalised the learning process. The need to formalise the learning process has become critical because newly formed cities (cities which have grown rapidly over the last few decades) have to accomplish in a decade or so what, in the past, took several centuries. If they are to establish a distinctive urban culture and to discipline their development they will have to do it deliberately.

A case needs to be made for advancing the discipline of city development as a locally-based, regionally-oriented, interdisciplinary and cross-sectoral exercise conducted within an holistic and perspective framework. With the ending of the "cold

war' and growing awareness of environmental deterioration, perhaps part of the "peace dividend" will be used to focus on the problems of everyday life in the cities, towns and villages where most people live and on environmental concerns. Perhaps this could be part of a more general trend to shift national science policies from defence industries and hard sciences to environmental and urban issues and to the softer sciences. New approaches and new settings may be required, such as the recently established European Academy for the Urban Environment, in Berlin. The challenge of sustainable development is to democratise, humanise, and transform science and technology into ecologically sound local economic development.

The global challenge is not simply that of advancing science but of integrating science with other types of knowledge and in ways which are ecologically and socially viable. What is needed is a more balanced science policy which addresses both the conservation of old knowledge and the acquisition of new knowledge through the advancement of science. A lot is made of the fact that knowledge is growing exponentially and that 90 per cent of mankind's present knowledge has been produced over the past 30 years but if one defines knowledge as the ability to survive in a sustainable way in a natural environment, it is, as *Sinding-Larsen* argues (1991), closer to the truth to say that 90 per cent of mankind's knowledge has been lost over the past 30 years.

The new paradigm of sustainable development provides a framework for advancing science and other types of knowledge in a more holistic way. Industrial growth gives undue emphasis to knowledge which has been externalised, can be expressed and can be acquired formally, i. e. global knowledge, which is of a scientific and universal nature. Enthusiasm for such global knowledge – science and technology and universal values – which may be logically calculated, is the modernist manifesto. If, however, we are to understand our most fundamental human needs and natural systems, local knowledge and local values must also be articulated and diffused. This is the Cities' responsibility and a key aspect of knowledge-based development.

A prototype study of knowledge-based development

Background to the Delft study

Delft, founded in 1246, is a small city in Holland, with less than 100,00 residents, located between The Hague and Rotterdam, which has recently undergone a profound change in the nature of its development. During the post-war period, Delft grew as a manufacturing centre but recently its economy has changed from production to knowledge, a transition which has been resisted rather than facilitated by local government which was socially oriented. Ironically, as the importance of traditional manufacturing activities declined, production workers became increasingly dependent on social programmes but, as the role of knowledge-based organisations increased, their linkages with the municipality weakened. The old city tied to declining production activities and the new city tied to growing knowledge-based activities grew apart. Consequently, benefits from the expansion of the knowledge sector was not benefiting from its environs as would have been the case, had the city been more attuned to the needs of the expanding knowledge-based activities.

In 1990, the municipality agreed to sponsor a prototype study of the development of its knowledge sector with the goal of formulating a new approach to development

which explicitly accounts for knowledge-based activities. The methodology, which was elaborated in the process of the study and the findings, which are specific to Delft, are summarised below because they have implications for other cities which are undergoing the same general type of development dynamic. What made the project feasible in Delft was the advanced stage of the transition and the scale of the city.

Delft is actually in a very fortunate position as far as industrial restructuring is concerned but it has yet to fully capitalise on its situation. It is fortunate because a number of knowledge-based organisations have their home base in Delft and are expanding. Their presence provides the city with possibilities for transforming the city into a knowledge centre and establishing a strong position in the "New Europe". At the moment, the milieu is not conducive to knowledge-based development; knowledge-based organisations are like islands without bridges; there is very little synergy either within the knowledge sector or within the local community. The study defined the problem, identified strategic issues, and proposed an agenda for action aimed at integrating the knowledge-sector into the city. This, of course, implies changing the local culture and a basic value shift towards a learning-based society.

Delft, like other industrial cities, now finds itself at a critical cross-roads – it can continue along the familiar path of industrial development which it has been following for several decades but which is clearly in decline and about which there is very little the city or the state can do, or it can venture into new types of development in the knowledge sector where opportunities are expanding but where the city has very little experience.

The purpose of the study was exploratory, to take a first look at the knowledge sector, to identify major knowledge-based organisations and to determine the feasibility of designing policies and programmes to facilitate their development. The goal was to help the city to become more informed about its knowledge sector, about the nature of the development processes and the potential benefits which could be derived from knowledge-based development and to stimulate thinking about what the city could do to strengthen its knowledge-base. A report (*Knight, 1990*), based on interviews with top managers from 21 organisations, was prepared, distributed to all the study participants, discussed at a public workshop attended by over 100 decision-makers and is available from the Delft Department of Economic Development. Recommendations presented in the report are now being implemented as part of Delft's strategic development plan.

General findings

A note on the nature of the survey. The findings are based on a survey conducted during the first half of 1990 of 21 major knowledge-based organisations located in the Delft region. This region includes the municipality and the neighbouring Westland; all but one organisation is located in the municipality. Since only three organisations surveyed had less than 50 employees, the findings should not be considered as being representative of small organisations, specialised consulting bureaus, or start-ups, which represent a small but very important aspect of Delft's knowledge sector; the mapping out of these important activities had to be left to future studies.

The data gathered should be regarded as estimates and preliminary in nature because they are based primarily on the judgements of persons interviewed. It should be noted that at the time of the study, the concepts of the knowledge sector, knowledge

resources, the knowledge worker, etc. were new: one of the aims of the study was to define these new concepts operationally. Occupational classifications and educational attainment levels, for example, are useful guides for classifying knowledge workers but they are not sufficient; industrial classifications have very little significance.

Knowledge workers are difficult to define because they work at many different levels of an organisation, in different occupations, and have different levels of formal training. In some knowledge-intensive activities, years of experience is especially important because much of their knowledge is of a tacit nature, acquired informally and through practice. Since the distinction between knowledge workers and other types of workers such as production workers and service workers is new, the estimates have to be based on the best judgement of the persons interviewed at each of the organisations; the same holds for data on the place of residence.

Importance of the knowledge sector: turnover and employment. The combined annual turnover of the 21 organisations surveyed was approximately 4.4 billion Hfl per year (1988–89) and their total employment in Delft was estimated to be 13,522 persons. (Note: 1 Hfl equalled approximately 0.43 ECU in May 1992.) Knowledge workers accounted for about 43 per cent of the work force in the knowledge sector, less-skilled production workers, support staff, clerical, maintenance, etc. accounted for the remaining 57 per cent.

Knowledge-based organisations play a dominant role in the area's economy; accounting for 36 per cent of Delft's 37,800-member work force. The knowledge sector is more dominant in those activities which are export oriented, i. e. activities whose output is purchased by non-residents of Delft, than in those which are locally oriented, e.g. retail, social and governmental services. In manufacturing, the seven Delft firms surveyed accounted for 81 per cent of the 7,900 manufacturing work force.

Knowledge intensity. The best measure available for estimating knowledge intensity is the share of the work force accounted for by knowledge workers. Knowledge intensity was greatest in educational and research institutes where workers accounted for 47 per cent of the work force compared to 39 per cent in industrial organisations.

Turnover per employee. This averaged 326,000 Hfl for the sample, and was considerably higher in industrial firms (464,000 Hfl) than in educational and research institutions, where it averaged 200,000 Hfl. This is due to the fact that turnover of industrial organisations represents the total value of their output including operations outside the region. Also contributing to these higher ratios is the fact that the contribution of the other factors of production, materials, capital, energy, labour tends to be higher in the industrial sector. In educational and research institutes, personnel costs account for over two-thirds of expenses.

Turnover per knowledge-worker. This provides a general idea of the overall direct influence which knowledge workers have on wealth creation. The turnover of knowledge workers in industrial firms is almost three times higher than in educational and research institutes. These differences reflect differences in the levels of responsibilities, risks and salaries between the sectors.

Origins of Delft's knowledge-base

The primary strength of Delft's knowledge base lies in the fact that it is deeply rooted in history and has evolved steadily over time by branching out into new areas,

increasing in diversity and reach. There were many stages in Delft's development. In each state, knowledge resources were formed, many have remained and now form the knowledge base. Knowledge-based development is not new, it has always been present but overshadowed by other types of development which were quantitatively more important. Delft's dominant culture remains commercial and industrial in nature. The city's fortunes fluctuated greatly in the past; as recently as the 1970s, Delft was a booming manufacturing centre and that is why its housing policies were oriented towards the needs of immigrant industrial workers.

In order to increase understanding of the nature and importance of knowledge resources in any city, it is helpful to examine their origins and to trace their evolution. Cities are less likely to take their knowledge resources for granted once they realise how long they took to develop. Delft's core competencies in water and soil management, for example, date back to the twelfth century when the area which is now Delft was a watery wilderness. Reclamation and management of these areas to make them habitable required acquiring the know-how to construct ever-larger dikes and quays and hydraulic works. The name Delft is actually derives from the word "delven" which means "to dig". In order to drain the area which is now Delft and to provide a link to the Schie, an extant waterway was canalised and given the name "Delf". The town took the name from the canal on which it depended; the "t" was added later.

Many of the situations leading up to the establishment of Delft's knowledge cultures, including the founding of the Technical University and some of the major industrial firms, were historical accidents, but the fact that they have been able to continue to develop in Delft is far from accidental. Only a few have survived, most failed along the way. To evolve, they had to advance their knowledge and extend their markets continuously. Companies which located in Delft to take advantage of location or labour supply, for example, were unable to remain competitive over the long run.

The single most important event in the development of Delft's knowledge base was the establishment of the Royal Academy and the relocation of engineering training from Leiden, almost 150 years ago. The Academy laid the foundation for what was to become the Technical University of Delft (TU-Delft) which in turn led to the formation of many educational and research institutes and companies such as Delft Hydraulics (1927), Delft Geotechnics (1943) and I.H.E., International Institute for Hydraulics Engineering, (1957). TNO, the National Institute for Applied Research, (1950) was located in Delft so it could have access to the university's resources, faculty, laboratories, equipment, libraries, students, etc.

Now, Delft is a university town but for several centuries students had to go elsewhere to study, originally to Orleans, then to Louvain when its university was established in 1426 and then to Leiden when its university was established in 1575. The first higher educational institute in Delft was an artillery and military engineering school established in 1814. Courses were also given in hydraulic engineering but the school was moved to the Royal Military Academy in Breda in 1828. Delft had a second chance because Leiden University, which has course in mathematics, physics and engineering ran into trouble when the faculty decreed that all courses, even those in the then-new engineering disciplines, should be conducted in Latin, there-by precipitating a sharp decline in enrolments. *Antoine Liphens*, a land surveyor and engineer living in Delft, perceived the need for a new engineering college and his efforts led to the

founding of The Royal Academy in Delft. The Academy, formed by royal decree for the education of civil engineers for national service, industry and commerce and of East Indian Officials, was patronised by the Prince of Orange (later King William III). The Academy ran into difficulties in 1864, the East Indian training was transferred to Leiden and the Academy was transformed into a Polytechnic School, which, in 1905, was upgraded to a Technical Institute and in 1986, to a Technical University.

The establishment of the Royal Academy came at an important time in the 600 year old city which needed a stimulus to recover from a long decline. Delft had grown as a city of "butter, beer and cloth" and had become an important centre for military activities – procurement, logistics, and manufacturing of armaments, clothing, food and supplies. Delft had also been a thriving commercial centre; it was one of the six chambers of the Dutch East India Company, and shippers sailed out of Delfshaven (a port constructed by Delft on the Meuse, now part of Rotterdam). Delft's direct contacts with the Far East date back over three centuries. Delft's manufacturing base began eroding at the beginning of the seventeenth century when its brewery industry lost its ship's beer trade. The loss was partially compensated by a boom in pottery during the second half of the century and by an expansion of textiles, subcontracting of dyeing and spinning of cloth for Leiden firms, but these industries also declined at the time of the Nine Years War (1688–97). Beer production continued to decline when tea was introduced and pottery went into further decline when Oriental porcelain prices slumped and competition from other European pottery increased. Employment declined, people left and Delft's population declined from 24,000 in 1680 to 14,000 in 1749 reaching a low point about 1760. At that time, when the foundations were being laid for the Technical University (TU), the city was a small commercial centre serving the nearby region.

Establishment of Delft's institutional base. Delft's knowledge base grew slowly but steadily over the following 150 years. Unlike labour intensive production activities which tend to grow in spurts, knowledge-intensive activities evolve incrementally and undramatically. This is the case, whether they are based in educational and research institutes or within industrial companies. Organisations which now comprise Delft's knowledge base were established during the formative years of their respective disciplines. Gist Brocades, the second oldest organisation, was founded in 1870 by one of the first graduates of the then recently established chemical engineering faculty of the TU. Early work on yeast and fermentation processes for beers led to work on enzymes, medicines and biochemicals and now Gist is the world's largest producer of penicillin. The TU expanded by adding new faculties which now number 14, the most recent being the Faculty of Industrial Design Engineering, established in 1973.

Development potentials of the knowledge base

Exports of knowledge. As knowledge-based activities develop they must become increasingly internationally oriented. Their development depends primarily on their ability to expand their markets and to export knowledge internationally. Exports are most important in industrial organisations but they are also becoming increasingly important in research and educational organisations. Exports outside Holland now account for about one-third of the estimated value of the entire knowledge sector's output. Of the 1.6 Billion Hfl of output exported, nine-tenths is by industrial organisations.

Exports are five times more important in industrial activities than in educational and research organisations which have been more oriented to the home market. The role of exports in Delft's knowledge sector, 1988–89 time, exports account for roughly half (47 per cent) of the output of industrial organisations and only 11 per cent of educational and research organisations.

The potentials for development of export activity among educational and research organisations are considerable and require special attention. This potential is clearly demonstrated by the fact that 85 per cent of the students attending I.H.E. are from abroad, and that exports account for 45 per cent of turnover, and are rising at Delft Hydraulics. If the technical university positions itself as a major European institution, the role of foreign students, who now account for 15 per cent of the first-year students, could increase and research funds from abroad will grow considerably.

The export of knowledge by direct transfer, i.e. by educational and research organisations, is particularly important locally because of the flow of funds into the local economy which accompanies such transfers. Those funds have a greater impact than the turnover data which reflect only the cost of instruction and do not include the costs incurred while residing in Delft. Living costs are substantial, especially when the knowledge is being transferred to professionals advanced in their careers and accompanied by their families.

As educational and research institutions advance their knowledge and upgrade their programmes, they upgrade their function and this causes a rise in income flows. Instead of teaching students, they teach the teachers, instead of providing solutions to problems, they teach others how to solve their own problems and they continue to advance their knowledge by assimilating knowledge gained from new applications and by specialising in the highest-level and most difficult problems. In the case of I.H.E., 350 such mid-career professional persons are enrolled full-time at any given time. I.H.E.'s alumni now number over 4000 and enrolment is growing at a rate of 25 per cent a year. Delft Hydraulics has been named a centre of excellence by the European Community and has been given a sizeable grant so that scholars and researchers throughout Europe can come and use their laboratory facilities for their experiments. These people are very important to Delft because they become part of Delft's knowledge network when they return home. This is how demand is created for knowledge-based activities, through personal, professional and alumni relations formed while visiting the city. While in Delft, they not only require residences of a high quality, they also need a stimulating cultural life which at the moment does not exist.

It is important to note that, increasingly, knowledge is being exported in the form of direct transfer to professionals rather than being embodied in a product such as a measuring instrument, an X-ray machine, a chemical compound, a blueprint or software which can be shipped. Old industrial sites need to be converted to such new uses. Unlike the visits of prospective buyers to factories which take a matter of hours, knowledge transfer and exchanges usually require the presence of professionals for extended periods of time – from a few weeks to a few years. The quality of the environment becomes an increasingly important factor in such transfers. Knowledge transfers are increasing, both in industrial organisations which are increasing their training budgets and building special training facilities for employees and clients, and

in educational and research institutes which must host professionals and scholars while they enquire or exchange knowledge.

International exports now account for four fifths of turnover in two industrial organisations, over half in four others and over one-thirds in the other two. Toshiba are particularly interesting because their activities is ideally suited to Delft's situation; they add value and export knowledge by operating a very specialised technical and training centre serving Eastern and Western Europe. First, Toshiba imports equipment from Japan by ship through the Rotterdam port, then assembles and tests in Delft, then flies in medical specialists who will be using the equipment for several days training, and then reships the equipment by truck for installation in hospitals throughout Europe. Toshiba's course programme is developing rapidly; between May and October, 1990, 55 courses are offered in Ultra Sound, Computer Topography, X-ray, Nuclear Medicine, Electronic Endoscopy and Magnetic Resonance Imaging. Professionals taking these courses stay in Delft for up to a week for each course.

The role of research & development activity. This is very high in Delft's knowledge sector due to the presence of several major research institutes. Overall, R&D accounts for an estimated 1.1 billion Hfl, which is a little over one quarter of the total output. Education and Research organisations, which account for only 32.0 per cent of the sector's total turnover or output, account for 74.2 per cent of R&D activity.

Most of the R&D activities are conducted by research institutes which also sell their services on a contract basis. Delft Geotechnics, for example, which was established as a research centre now derives two-thirds of income from providing consultancy services to construction firms and governments performing soil analyses for building sites, etc. Only one third is for research. R&D accounts for 100 per cent of the activities in TNO, the National Institute for Applied Research and in Delft Hydraulics. R&D activities account for roughly 15 per cent of total activity in educational organisations in value terms and range from an estimated 18 per cent at TU Delft to less than one per cent at HLO, a technical high-school for laboratory technicians, and at the Bibliotheek TU Delft.

Industrial R&D is dominated by the activities of Gist Brocades, whose world-wide sales are more than three times those of the next largest firm. Gist is also one of the most knowledge-intensive in terms of the percentage of turnover spent on R&D: Gist Brocades's R&D centre is located in Delft near their headquarters and employs 650 researchers working in microbiology, genetics, chemistry, pharmacy, biosynthetic enzymes, biochemicals, biopolymers, anaerobic waste water treatment systems and process technology.

Benefits: actual and potential

The benefits of knowledge-based activities take many different forms. In addition to direct economic benefits such as levels of income and employment in the knowledge sector considered above, there are important indirect effects and benefits which affect the social, cultural, political, intellectual life of the city. These need to be considered in terms of both their present and their potential aspects. Indirect benefits, derived locally as export-generated funds are spent locally, were estimated using export base theory. Other types of benefit such as the advantages derived from being in close proximity to knowledge resources, from co-operation among knowledge-based organisations and

from social contacts between knowledge workers and local residents are very difficult to quantify but they were discussed during the interviews and defined as strategic issues of a qualitative nature.

Income flows generated by the export sector are particularly important because, when these funds are spent locally, they create additional economic activities which support jobs in locally-oriented activities, i. e. activities such as housing, retail, entertainment, public services, educational, social, and cultural services for local residents. Such indirect benefits do not occur all at once but over time because when new income enters the city's economy through the export sector and is spent locally, some of these funds are recycled several times before they flow out of the local economy in payment for imported goods and services. Funds spent locally take the form of wages, rents, local taxes and payments for locally produced supplies and services, etc. and when these funds are present in the local sector they enter the next spending cycle. Funds entering through the export sector and spent locally thus create second, third, fourth, fifth cycles of activity. The amount of funds diminishes with each successive cycle as funds leave the local economy to pay for imports; these outflows are offset by new funds entering through the export sector.

The export-base multiplier. The technical term for the total (direct and indirect) effects which this recycling of export earnings has on the local economy is the "export-base income multiplier effect". The actual level of benefits derived locally from activity in the export sector depends on the level of export activities and on the export-base multipliers, i. e. on the earnings and residency of workers in the export sector and on the percentage of expenditures spent locally. The economic impact or benefits increase or decrease with changes in the level or upgrading of activity in the export sector and with structural changes in the local sector.⁶

Present benefits. Knowledge-based organisations surveyed in Delft account for a major portion of the income flows generated by the export sector and, therefore, provide a fairly reliable basis for estimating the Delft's export-base multiplier which was estimated to be 1.87 (see Appendix of Delft Report). Basically, this means that each 100 jobs in the export sector supports an additional 87 jobs in the local sector. The knowledge sector, which accounts for about 81 per cent of employment in the export sector also accounts for over half of the employment in Delft's local sector, 10,350 out of total 16,400 jobs.

The knowledge sector, though dominant in terms of economic activity, does not make as large a contribution to the local economy as it could, because only 11 per cent of the knowledge workers as compared to 85 per cent of the support workers in the knowledge sector actually live in Delft. Since most of the knowledge workers commute, their income does not enter the local economy but is spent where they live. Support personnel, most of which live locally, thus account for 11,612 jobs, 6,524 directly and 5,089 indirectly through the multiplier effect, compared to knowledge workers which account for only 1,129 jobs, 634 directly and 495 indirectly. If Delft's housing policies were changed to meet the needs of knowledge workers and half of the 85 per cent of the knowledge workers who now commute lived locally, an additional 3,018 jobs would be created in the local sector. These jobs are in fact needed because they would help to offset the loss of production jobs in the area.

The regional impact of knowledge workers employed in Delft is, nevertheless, considerable but is geographically dispersed throughout the commutershed which

extends outwards for 100 km or more. The 5,214 knowledge workers and 1,150 support personnel surveyed who commute daily to Delft account for approximately 46 per cent of the 14,000 daily incoming commuters. Many residents of Delft have to commute elsewhere to work and many of these are jobs in the local sectors of other cities. Commuting costs in terms of time, money and environmental and psychological stress are certainly negative factors and are increasing. The most frequently mentioned problems concerning knowledge-based activity in Delft were those dealing with commuting. When viewed from this perspective tax policies and social housing policies which favour commuting appear quite perverse.

Local implications of knowledge-based development

Growth of the knowledge sector varies by type of activity depending on whether they are in educational, research or industrially-oriented organisations, but some trends are of a general nature and thus help to serve as a guide for evaluating local implications of the growth of the knowledge sector.

First, knowledge-based organisations are coming under increasing competitive pressures to advance their knowledge base by upgrading knowledge resources and expanding their markets. Competition for talent is relentless; Europe '92 and the creation of the New Europe is accelerating the globalisation process.

Second, the role which national governments played in establishing new knowledge resources and in advancing knowledge by supporting basic research is declining and the role of the market is increasing. Consequently, the advancement of knowledge is becoming increasingly market-pulled as opposed to science or technology-pushed.

Third, knowledge-based organisations have to position themselves strategically and this means they have to focus their efforts on strengthening core competencies. Strategic planning, marketing research, product development and marketing activities are increasing in importance at the organisational level and this usually results in the expansion of knowledge-based activities, of knowledge networks and of the knowledge sector.

Fourth, knowledge-based organisations are giving more attention to innovation and to increasing the synergy between existing departments and activities than to diversification as was the trend in the not so recent past. The importance of territorial clustering and of stimulating environments is receiving more and more of their attention.

Fifth, international co-operation or alliances are becoming essential for strengthening core competencies, maintaining competitive advantages, and supporting centres of excellence. Participation in European Union programmes, for example, generally requires international co-operation. An international image as a knowledge centre, the involvement of local educational and research organisations and enterprises in international programmes, and a high quality of life and cosmopolitan setting are thus becoming increasingly important factors in local economic development.

These trends are bringing about both an upgrading of functions performed and increasingly productive use of knowledge resources. Development of the knowledge sector is evidenced more in terms of qualitative improvements than in quantitative changes. Upgrading takes the form of increases in total turnover and in value-added per knowledge worker and in qualitative characteristics such as increases in the skills

and income levels rather than in increases in the number of knowledge workers or of space requirements. It appears that, as the knowledge work force and their work environments are upgraded, the ratio of support personnel to knowledge workers tends to decline but the ratio of jobs created indirectly in the local sector increases.

Development dynamics. The development trends occurring in Delft are not new and they need to be considered in an historical context. The trends now becoming dominant were established in an earlier period. They gained momentum gradually over the last few decades and the reason they have become dominant is that traditional production activities have declined. Basic changes in the nature of the city's development now need to be addressed because they have major implications for the future – for knowledge-based activities, for the city and for its citizens.

The benefits derived locally have not kept pace with the expansion of the knowledge sector. Moreover, the knowledge sector has not benefited from its environs as it would have, had the city been more attuned to the needs of the expanding knowledge-based activities. This holds equally for organisations established early in the formation of the city's knowledge base as well as for those formed more recently. Some of the newer companies interviewed stated outright that they have no linkages with the municipality except for their physical presence. New corporate cultures are being established based on the idea that Delft is only a place to work, not a place to live. Once such an organisational culture becomes established it is difficult to change; companies with such weak linkages have very little commitment to the city and could move very easily. Some have incorporated Delft into their name and argue that they could continue to benefit from their association with Delft without actually being located in the city. This is not to say that the linkages are not there, but rather that they are not being articulated or developed and this does not augur well for the future.

Improving communications. The survey served as a way of redefining the city as a knowledge centre, of identifying new types of collective interests, and provided a way of improving communications between organisations in the knowledge sector and the city and within the knowledge sector and the city and within the knowledge sector. There has been an almost total breakdown of the civic process and horizontal communications within the community are very poor. The TU, once a creative force in the cultural life of the city has withdrawn; today's engineering students have very little exposure to the humanities. By creating its own huge campus on the outskirts and moving its facilities out of the city centre, the university has become isolated, physically, socially and culturally. There is little reason for local residents to visit the campus area other than to work or for those working in the university to go into the city during the day. The university is symptomatic of specialisation and vertical thinking and needs to be reintegrated with the city. As one person interviewed asked, how can engineers trained in such settings ever become sensitive to the need to humanise science?

Some of the older firms that grew up in Delft and were once very civic-minded have found it necessary to change their relationship with the community and these changes have led to a weakening of local linkages and to a reduction of the benefits the city derives from their presence. Some companies based in the city which used to participate actively in civic affairs, schools, cultural activities, etc. and even included specific clauses in their employment contracts with top workers, they have to provide them with assistance in purchasing new homes outside the city.

Further upgrading of the knowledge sector will simply intensify the problems unless the city develops new policies. With the housing shortage in Delft and the limited supply of housing suited to the requirements of highly-skilled workers, knowledge workers no longer really have the option of living in the city. In 1990, there were 10,000 people actively seeking housing in Delft whose housing stock numbers only 47,000 units most of which are social housing. Resident knowledge workers seeking to improve their housing or newly recruited knowledge workers moving to the area really have very little choice but to find housing elsewhere and to commute to work. The changing demographics of the work force also tend to reinforce the trend towards weakening the linkages between Delft and its knowledge sector because, as older workers who tend to reside locally retire, they are replaced by younger workers who commute. Moreover, the ratio of support personnel, where linkages with the city are strong, to knowledge workers, where linkages are very weak, is decreasing.

Knowledge-based organisations are, nevertheless, particularly suited to the long term interests of the city; the city should seek to strengthen its knowledge culture because it could provide a secure and stable basis for sustaining the city's development. One of the key characteristics of knowledge-intensive activities is that, although they grow slowly, they grow steadily. They do not grow in spurts, rising and falling with product and business cycles as labour-intensive production activities do. But, as the Delft study illustrates, policies designed to meet the needs of industrial growth have to be changed if their citizens are to benefit more fully from the expansion of the knowledge sector.

Notes

- ¹ The idea of knowledge-based development was first presented at an international conference on the future of the Metropolis in Berlin in 1984. See, Richard Knight, "The Advanced Industrial Metropolis: A New Type of World City", in Hans-Jurgen Ewers, John B. Goddard, and Horst Matzerath (Eds.), *The Future of the Metropolis*. Berlin: Walter de Gruyter, 1986.
- ² For early work done on the economics of knowledge production and on Post-Industrial Society, see Fritz Machlup, *The Production and Distribution of Knowledge in the United States*. Princeton: Princeton University Press, 1962, followed by a series on *Knowledge and Knowledge Production* by the same publisher beginning in 1980; and Daniel Bell, *The Coming of Post-Industrial Society* London: Heinemann, 1973; M. Porat, *The Information Economy* Washington, D. C.: Office of Telecommunications, U. S. Dept. of Commerce, 1977.
- ³ For an actual assessment of city's science base see Hartmut Arras and Willy Bierter, *Welche Zukunft wollen wir?* Basel: Christoph Merian Verlag, 1989; Hartmut Arras, "Reckoning with the Future: Basel Explores Three Scenarios" (the Basler Regio Forum, defined the region's knowledge-base), in *Cities in a Global Society*.
- ⁴ For readings on the historical development of cities see Lewis Mumford, *The City in History*. London: Harcourt&Brace. 1961, and *The Culture of Cities*, 1938; Paul Bairoch, *De Jérigo á Mexico: Villes et économie dans l'histoire*. Paris: Gallimard, 1985; Eng. tr. by Christopher Binder, *Cities and Economic Development: From the Dawn of History to the Present*. University of Chicago Press, 1988.
- ⁵ For further readings on cities see Gary Gappert with Richard V. Knight (Eds.), *Cities in the 21st Century*, Vol. 23, Urban Affairs Annual Review. Beverly Hills, Cal.: Sage Publications, 1982; Richard V. Knight with Fary Gappert (Eds.) *Cities in a Global Society*, Vol. 35, Urban Affairs. Annual Reviews. Beverly Hills, Cal.: Sage Publications, 1989.
- ⁶ For further work on export-base multipliers and urban development processes see Richard V. Knight, *Employment Expansion and Metropolitan Trade*. New York: Praeger Publications,

1973; Thomas M. Stanback, Jr. with Richard V. Knight, *Suburbanization and the City*. Montclair, N. J.: Allenheld, Osmun&Co., 1976, *The Metropolitan Economy: The Process of Employment Expansion*, New York: Columbia University Press, 1970.

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24 BUSINESS SERVICES AND REGIONAL DEVELOPMENT

ANTONI SOY

The growing importance of services in the economy

For some time there has been a *growing interest in service activities* that has appeared at the same time as the quantitative growth of the importance of these activities in terms of employment, output and internationalisation, as well as because of the change this has meant for the capabilities of enterprise and the productive system.

Previous studies show the *growing importance of tertiary employment*, as much in the tertiary sector as in other sectors of the economy, that has risen well above 55–60 per cent of total employment in the great majority of the industrialised countries. At the same time, the rate of growth of tertiary employment is above that of the other economic sectors (*Bertrand-Noyelle*, 1986; *Elfring*, 1988; *Marshall*, 1988; *Siniscalco*, 1988; *Gadrey*, 1992; OECD, 1992).

Simultaneously, *the proportion of services in the GDP in nominal terms has been growing* until it represents, altogether, close to 55–50 per cent in the industrialised countries (*Fontaine*, 1987; *Ochel-Wegner*, 1987). However, *the importance of services in the GDP does not seem to grow at the same rate in real terms* (*Kutscher-Personick*, 1986). In other words, the relatively lower productivity in services causes growth in employment and prices relative to the sector and, consequently, in its share of the nominal national (or domestic) product, but not in real terms (*Baumol-Batey-Blackman-Wolff*, 1989).

The growing role of services in the economy has caused some authors to talk of the post-industrial society or of the “deindustrialisation” of the economy and the advent of an economy of services. In answer to this theory, however, other authors have pointed out that, despite the growth in the proportion of persons employed in the tertiary sector, there has been practically no change in the relative share of services in the real national or domestic product at constant prices.

The *classical, or standard explanation* of the growth of services in the economy (*Singh*, 1987) considers that the essential conditioning factors are the increase in the final demand for services connected to an increase in income per capita; a greater relative elasticity of demand for services; the growing importance of the public sector and non-profit sectors; a level and a rate of growth in the economy relatively less than the productivity of the services and a growth in intermediate demand for services.

Nowadays, however, in an attempt to go further than more descriptive explanations, the growth of services has been connected to a structural *mutation of productive*

activities, with profound changes in the functioning of the productive system, inter-related with the development of new information and telecommunication technology which implies increasing integration of industry and services as a consequence of technological innovation and the growing process of the social division of labour in the productive system (Stanback *et al.*, 1981; Walker, 1985; Momigliano-Siniscalco, 1986; CEE, 1987b; Siniscalco, 1988).

Table 24.1

*Proportion of employment in services of the civil active population,
1966-1989, per cent*

	1966	1970	1975	1980	1985	1989
Canada	57.4	61.4	64.6	66.0	69.5	70.1
USA	58.3	61.1	65.3	65.9	68.8	70.5
<i>North America</i>	58.2	61.1	65.2	65.9	68.9	70.4
Japan	45.1	46.9	51.5	54.2	56.4	58.2
Australia	53.3	55.0	59.4	62.4	66.2	68.0
New Zealand	48.1	48.6	53.5	55.4	56.5	64.3
Austria	41.1	44.0	46.6	49.3	52.9	55.1
Belgium	49.2	52.5	56.5	62.1	66.7	68.7
Denmark	48.6	50.7	58.8	62.4	65.2	66.9
Finland	38.3	42.8	49.0	51.8	56.5	60.2
France	43.9	47.2	51.1	55.4	60.4	63.5
West Germany	41.3	42.9	47.6	51.0	54.5	56.5
Greece	30.4	34.2	36.8	39.5	43.7	47.1
Island	45.5	46.9	49.5	51.4	55.8	59.2
Ireland	40.7	43.1	45.8	49.2	55.2	56.5
Italy	37.8	40.3	44.1	47.8	55.2	58.2
Luxembourg	41.6	46.3	49.6	56.6	61.9	65.4
Holland	52.1	54.9	59.4	63.6	67.0	68.8
Norway	46.5	48.8	56.1	61.9	65.4	68.1
Portugal	30.9	37.1	32.3	36.1	42.2	45.7
Spain	35.7	37.4	39.6	44.6	49.9	54.0
Sweden	48.3	53.5	57.1	62.2	65.3	67.0
Switzerland	42.1	45.4	50.2	55.0	48.3	59.3
Turkey	17.5	17.9	21.3	26.2	27.7	29.5
United Kingdom	50.0	52.0	56.8	59.7	65.8	68.4
<i>OECD-Europe</i>	40.5	42.9	46.6	50.6	55.0	57.6
<i>EEC</i>	42.6	45.0	48.9	52.7	57.8	60.7
OECD total	46.6	49.3	53.5	56.6	60.3	62.5

Source: OECD, 1992.

Business services: definition, importance and function in the economy

The difficulties in definition of services replicate or are enlarged when an attempt is made to *classify* them, as they include very diverse and heterogenic activities and there are very different criteria and premises from which they can be classified (Gadrey, 1992). Therefore, services have been classified according to diverse *criteria*: the type of organisation that produces the service, the type of market (type of demand) at which they aimed, and, above all, the principal function they perform in the productive system.

From this point of view (Noyelle-Stanback, 1984; Martinelli, 1986), the following have been considered: *services for the final consumption* of individuals and families, (retail trade, hotels and restaurants, leisure and recreation, repairs, domestic services, cleaning, personal services); *social services or social infrastructure* (education, health, social work, defence, public administration); *services of circulation and distribution* (commerce, wholesalers, transport, communications, financial services); and *business services* necessary for the production of other services.

Business and professional services are, therefore, a part of services to production¹ directed towards intermediate demand. They are inputs in the production of goods and other services and participate as indirect factors in the process of production. Despite possible conceptual or statistical problems, there seems to have been progressive agreement on considering as business or professional services: management, administration and consulting; technical services or those connected to production; research; information and computing services; publicity and promotion of sales; logistic or operational services. A classification of business services by functions, that takes into account recent discussion can be found in Ruysen (1989).

In the more industrialised countries (France, Germany, Japan, the USA, the United Kingdom, Sweden and Holland) the proportion of employment in production services has doubled in relation to total employment in the last few years. These services have had a share of over 25 per cent of the total growth of services, and business services and professionals represent more than a half of those occupied in production services as a whole (Elfring, 1988, 1989). This development has been different in countries such as Germany or Japan, where these services are less important and are more internalised in the companies, than in countries like Sweden, France, or the USA, where they are more important (Illeris, 1991).

The *development of business services*, given their close relation to productive activity, should be analysed and understood in relation to recent developments in the organisation of production in modern economies. These have involved very important changes in the organisation of production, and have accelerated the process of the division and specialisation of labour.

The development of specialised services for the productive system is a result of the *progressive division of labour* (Walker, 1985) that leads to a growing separation and specialisation between different phases of the production cycle: conception, organisation, control, execution and sales. The extent of the division of labour in capitalist economies gives rise to new specialised activities, that were not normally on the market before, and simultaneously, act within the manufacturing sector, where they cause a *radical transformation in the organisation of production* (Momigliano-Siniscalco, 1986).

Table 24.2

Classification of business services by functions

MANAGEMENT FUNCTION	INFORMATION, COMMUNICATION AND FUNCTION
Consulting on organisation	Computing services
General management	Software
Advice on selection of personnel	Data processing
Training advice	Advice on computing
Legal advice and services	Information services
Fiscal advice	Specialised press
Auditing and accounts	Data bases and on-line video text
Public relations	Private communications services
Administrative services	Messenger services
Secretarial	Advanced telecommunications services
Translation	
PERSONNEL FUNCTION	SALES FUNCTION
Selection and employment	Advertising
Occupational training	Market research
Temporary staff	Sales promotion
	Direct marketing, telemarketing
PRODUCTIVE FUNCTION	Export assistance
Repair and maintenance	Trade fairs and exhibitions
Inspection, control and certification	Design
Standardisation, quality control	
Industrial engineering	OPERATIONAL SERVICES
Engineering consulting	Cleaning
Plant hire	Protection and security
Treatment of waste	
Other technical services connected to production and construction	RESEARCH FUNCTION
	Research and development under contract

Different empirical studies referring to various industrialised countries have shown a *progressive integration of industry and services* and show that the increasing growth of employment in services is due, fundamentally, to growth of intermediate demand (and not final demand) for services; this growth gives rise to a simultaneous increase in the utilisation of services in the production of final manufactured goods. In spite of reductions in employment, the production of manufactured end products, industry, continues to be the motor of economic growth.

The internalisation–externalisation dynamic in business services

Business services can grow within companies (*internal business services or implicit tertiary*), with an increase of employees in tertiary functions and activities, be they for industry or services, or the specialised independent service firms may grow, offering their products on the markets as inputs to the production of other industrial or service enterprises (*external business services*).

Business decisions with regarding the supply of internal services or their externalisation depend on the costs and prices, but also, on the attainment of an improvement in the global results of the company. In general, the hierarchical organisation of modern large companies leads to an internalisation of functions in order to benefit from synergy and to avoid the transaction costs associated with subcontracting. The growing expansion of external markets generates economies of scale which lead to an externalisation of certain functions by companies that wish to benefit from them (*Petit, 1986*).

More recently, some authors have pointed out that the process of externalisation, that is, the growth of demand for external business services is nearer to being a question of specialisation of functions, the result of an accumulative process of diffusion of new forms of organisation and production, that do not lead to economies of scale. From this perspective, the *demand for business services is complementary to rather than a substitution for the internal activities of the company*. (*Stanback et al., 1981; Ocher-Wegner, 1987*). Empirical studies carried out seem to show that there is a clear positive correlation between the intensity of internalised services and recourse to externalised services (*Momigliano-Siniscalco, 1986*).

This *internalisation-externalisation dynamic* of business services has also been connected to various factors (*Martinelli, 1986*): specialisation (that tends to mean externalisation) or standardisation (that only implies internalisation) of services; the frequency of the utilisation of services; increases in control over certain functions or reduction of risks on the part of the firm; the availability of a particular service on the local market; the possibility of increasing flexibility in the utilisation of the work force, the reduction of costs and increases in productivity.

Internal organisation is preferable to the market, which is to say, internalisation to externalisation, when co-ordination costs are lower than transactional costs. Therefore the reduction of the cost of gathering, transforming and transmitting information that allows new information technology to be introduced offers new possibilities for externalisation and decentralisation in the creation of new services.

External business services have all developed in the search for greater specialisation, flexibility, efficiency and profitability of enterprise. It is necessary, however, to differentiate in this use of external services between that of the large companies and that of the small and medium-sized companies (SME). In effect, the SME, because of their limited size and technical and financial capacity, have to take recourse, to a considerable extent, to the market, to supply themselves through service firms, especially for more specialised services. This makes them very dependent on their suppliers of external services and this influences their dynamics, their capacity to adapt and their competitiveness.

In contrast, the large companies have a wider margin of choice between external or internal suppliers of the business services they need. *The externalisation of certain services by large companies* could be related either to certain ordinary functions, not related to the characteristics of the production of the company, in order to reduce costs, or to some more important functions, to find more specialised services that are necessary for the development of the company. In these cases, more than delegate or subcontract, the firms seek a collaborator or partner who will allow them to increase their efficiency and innovative capacity. This external supply of strategic specialised services requires, therefore, that the firm has suitable internal partners.

Features of the location of business service companies

Tertiary activities have been described as fundamentally urban. More precisely, services directed towards production and, in particular, business services, show a high degree of centralisation in the large metropolitan and urban nuclei, as have demonstrated a great number of empirical studies carried out in the principal industrialised countries (*Noyelle-Stanback*, 1984; *Marshall*, 1988; *Secchi-Alessandrini*, 1990; *Ley-Hutton*, 1991; *Mayere-Vinot*, 1991).

At the same time, it has been possible to speak of the relative underdevelopment of business services in the less developed regions, connected to the small size of the industrial market and a structure dependent on the spatial division of labour imposed by large companies situated in different locations in these regions. This lack of development of business services negatively affects employment possibilities, makes modernisation and innovation in the industrial framework difficult and accentuates dependence in relation to regions and metropolitan areas that are more developed. Consequently a vicious circle is created, accumulating underdevelopment in the peripheral areas (*Martinelli*, 1986, 1989b).

The principal factors that can explain the features of localisation of business services can be summed up (*Illeris*, 1989; *Ruysen*, 1989) in the "intangible" character of services, something that imposes a restriction on proximity between the supplier and the user; the hierarchical organisation of large companies in several locations, which is transformed into a hierarchical spatial division of labour, that decentralises the more standardised material or immaterial production while concentrating more innovative production and, especially, that related to decisive strategic functions, towards more central regions and metropolitan areas (*Martinelli*, 1989b); the close relation that exists with the features of location of the managerial centres of large companies, due the necessity of many face to face contacts between the client and supplier (*Noyelle-Stanback*, 1984; *Coffey-Polese*, 1989); the importance of economies related to agglomeration, that is, supply economies in the external environment, such as a greater (and easier) access to the principal factors of production, a better disposability of infrastructures, a greater circulation of information and specialised know-how and a greater concentration of other services. Also there are greater possibilities for functioning in the form of a network in order to constitute a diversified supply capable of adapting to the needs of demand. All these make the large urban centres attractive for business service firms (*Martinelli*, 1989a; *Ciciotti*, 1990; *Mayere-Vinot*, 1991).

In fact, a *new spatial division of labour* is being created, on an international and interregional scale, based on the new characteristics of the organisation of the productive system, of the degree of autonomy of firms and the presence of centres of decision making and specialised services. The more central regions and cities accumulate more innovative production and, above all, the strategic and decision making functions; in the more peripheral regions the development of business services is very limited; a certain local supply of business services develops in the intermediate regions and urban areas (*Noyelle*, 1983; CEE 1987a).

Even though, in spite of this general tendency towards concentration, the development of new information technology and telecommunications technology, the need to decongest the more central areas of large conurbations, the search for better quality in the surroundings, the need to serve distant markets or to diversify and

produce made to measure services, are all factors that can lead to a certain decentralisation of business services in the region (Daniels, 1991). Therefore, in some cases, the movement of some standardised activity towards more peripheral areas between the urban areas (or to non-urban areas) has been detected, while the specialised activities are concentrated more in the central parts of the metropolitan areas.

A *fundamental factor*, then, in trends in location of business services in the near future will be *the progressive introduction and diffusion of new information and telecommunications technology*. In this context, the location of business services is seen as affected by the fragmentation and the geographical dispersion of the production process, although there is a tendency to maintain the centralisation of business services in central offices. This new technology implies, therefore, *contradictory tendencies as far as the location of business services is concerned*, as although they permit (but do not impose) a greater decentralisation connected to the disappearance of the restriction of distance, at the same time they could mean a greater capacity for control for the central offices, which, together with other contemporary trends in the productive system (financial combination, globalisation of the productive system, the need to seek wider markets), could imply a centralising process and geographical functional and social polarisation (CEE, 1987a; Howells, 1988).

From the point of view of the regions, the availability of new technologies and new business services could represent a guarantee of greater competitiveness and growth and a stimulus for entrepreneurial initiative and for the availability and transmission of know-how. However, the availability of new technologies would affect regions in different ways according to their characteristics, their position in relation to others and, additionally, according to changes in the manner in which services are offered, the segmentation of the market into standardised services and custom built services or the relative level of infrastructures and telecommunications services. In any case, the new information and telecommunications technology, the corresponding infrastructures and the growth of business services are the necessary condition, but not a sufficient condition, for development and balance between regions (Nei, 1986; CEE, 1987a; CEE, 1987b; Illeris, 1989; Ruysen, 1989).

Business services and regional policy

Consistent with the vision, that has been described, of the role of business services in the current productive system, and coinciding with a certain slowing down of industrial growth during the crisis, regional and industrial policy has begun to consider the place and the role of business services in current development in a serious way.

In an economy and in regions where the speed of change in the productive system is above that of the capacity for response of the firms, and where knowledge and complex information appear as key factors in the competitiveness of firms, business services appear to have possibilities of bringing improved market knowledge to enterprise and also a greater capacity for anticipation and adaptation to changes. Business services are placed as a fundamental element in a favourable environment for the companies already located in a region and an attractive factor for the location of new companies and activities (Noyelle-Stanback, 1984; Illeris, 1989).

The concept of services has changed from services as passive followers of industrial location to a concept of services, especially the more complex ones that are advanced

and innovative, capable of being attractive, as a fundamental element in the creation of surroundings that are favourable to the attraction of new activities to a region. Business services can also be, more and more, a factor in regional development because of their capacity to export to other regions or for other indirect effects that they can have on the productive framework (for example, a more highly qualified socio-professional composition of the population, new infrastructural and service requirements related to new information and telecommunications technology, etc.). Because of this, the existence of a regional or local framework of business service firms, that is dense and diversified, is an element in regional development, – especially for small and medium-sized companies –, all of which limits the extra regional demand for these services, and allows greater local capacity and greater control of the process of innovation and modernisation in regional development (Martinelli, 1989a).

Regional policy in relation to business services should consider a series of *information, consulting, promotion and mediation* activities between private and public bodies, in order to favour all those factors that stimulate modernisation and innovation processes. Possible activities in a policy of promoting business services could be grouped into three categories (CEE, 1987a; Martinelli 1989a; CEP, 1989; Baro-Soy, 1993): those directed towards the *realisation and improvement of the supply potential*; those directed to the *stimulation of demand*; those directed towards the *improvement of entrepreneurial capabilities*.

The measures, directed towards the *deployment of supply potential*, could include initiatives that facilitate access to suitable premises for locating the activities of the firms; initiatives that guarantee the availability of the main elements that are involved in the process of supplying the business services, that is professional personnel with suitable qualifications, information (market and technical) and capital resources.

The initiatives that tend to stimulate demand for business services as a factor in making the supply dynamic and of a suitable composition assume the formulation of a well structured policy of public demand for services; contributing towards ordering the market; defining the quality control systems most suitable for services; information, stimulation and consulting activities for the private sector; improvement of channels of communication between supply and demand for business services (trade fairs, congresses).

Finally, activities directed towards *strengthening entrepreneurial capabilities* could include activities that contribute towards guaranteeing an adequate availability of know-how and facilitating its circulation (training, technology transfer, centres for innovation, data bases); activities that contribute towards reduction of the costs of adjustment in the transfer of local resources from old to new techniques (risk capital and other suitable forms of finance); activities that contribute towards encouraging co-operation between companies.

Notes

¹ Services for production have been defined as those that are offered (are bought or used by) enterprises and governmental organisations more than individual consumers, who are intermediaries or auxiliary in the process of the production of other activities and which can as well be produced externally or internally to the organisations or companies (Marshall, 1988). Perhaps these activities do not produce any material product, yet they are necessary for

the development of the productive cycle, from the viewpoint of mobilisation of resources, the concept of products or processes, organisation and management of production, distribution and sale of the final product (Martinelli, 1986).

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25 THE COMPETITIVE DEVELOPMENT CONCEPT OF THE SOUTH TRANSDANUBIAN REGION

LÁSZLÓ FARAGÓ

I believe that this experiment is very interesting since the "region" not only does not exist in Hungary as an administrative unit, but it cannot be found in regional statistics either, at policy or even at the planning and the development level. The currently existing counties, regarding their size and scope, cannot meet the requirements of this role. On the one hand there are objective regional processes that make the appearance of the regional level necessary. On the other hand, our contract of association to the European Community forces us to develop compatible structures to the European ones. The South Transdanubian region can be the Hungarian element of the NUTS II level.

I belong to the group of experts that believe that there is no uniform model of regional development, thus I am not going to introduce you to the particular region and its development programme, but I would rather present those aspects of programme development (a new approach in Hungary), which can be generalised.

A region ready for change

The region of South Transdanubia is less developed and has more troubles than the Central and Northern Transdanubian region but the crisis is less deep than that in the Northeast part of Hungary. There is an urgent need to develop an economic vitalisation programme to avoid a deeper crisis.

During the last three years the government focused on and allocated central support to the Northeast regions in crisis. The local governments of South Transdanubia did not pay attention to regional problems and their solution, due to their operational difficulties, despite the fact that the economic units of the region are incapable overcoming the difficulties by themselves. An increasing number of actors in the region have realised the necessity to formulate a development strategy based on the re-evaluation of the region's resources and endowments. *A chance for a "fast" result can be realistic only if a common intention (programme) exists based on collaboration, and relevant institutions and if necessary resources are made available.* The most promising element of programme development is that the various actors are not waiting for the help of the paternalistic state, but *are taking the initiative of development into their own hands.*

As co-operation gains importance following a phase that was characterised by disintegration and the introversion of the public administrative units, the conditions

are favourable for a development approach built from below. The region's integration with Europe is helped by getting closer to the new European development centres,¹ and three counties of the region are already members of the Alp-Adria Working Community.

Collaborative strategy instead of the traditional plan

The traditional programmes and plans made for other regions still emphasise the central role, and the mobilisation of the regional actors and resources are articulated only in slogans as a desire. In these cases the programme developers (employers and planners) consider it a traditional planning task with the objective of developing a final document (a concept or a plan). The objective of this programme is to involve the region's most important actors, and the decision makers outside of the region who have impact on the region, in a broader basis, into the programme development process, and into the application of the therapy, jointly developed and accepted by the relevant forums. This collaboration can facilitate finding the most possible and achievable solution, and that is able to accommodate changes in time. Today we can achieve results only if we are working not on plans for the desk, but on changing the market, the institutions, and the "attitude" of the decision-makers in general. It means that *the process of concept development is as important as the final result*. The planning process itself creates the conditions for the interest harmonisation.

For actual development and internal structural changes the actors of the region (local governments of counties and settlements, professional and social organisations, enterprises, universities, research and financial institutions) and the competent authority of the government, should be called together and be made responsible participants of the programme. To induce a broad participation, to find the appropriate forms is one of the most important part of the programme regarding socio-political responsibility.

New paradigms

The concept is based on the new paradigms of regional development:

- currently market oriented regional policy is needed instead of the social-oriented programmes, meaning that efficiency comes before equity;
- the scene of economic development is, on the one hand an increasingly global market, and on the other hand, the region, instead of the national level. The economy can be developed only together with the necessary infrastructure;
- the economic clusters, groups of buyers and suppliers, are more important than the traditional industrial sectoral approach;
- not only the natural endowments and the physical infrastructure have an effect on production but also the soft infrastructure – human resources, quality of housing, finance, R&D, etc. – can be the foundation of comparative advantages;
- the *collaboration of the private and public sectors* is a prerequisite for competitiveness under market conditions;
- as opposed to the formulation of a detailed, long-run action plan and vision of the future, the coordinating, interest harmonising, and organising functions of the regional planning process is emphasised. The information providing and orientating role of the concepts, programmes, and plans is at least as useful as the par-

particular, thus fragile, programme development. In this way the concepts and plans are the manifestations of values and interests, and are determined not by professional aspects presumed to be objective, but by the intention of the local, regional society;

- only the strategy of an innovative regional policy based on internal structural changes and the mobilisation of internal resources can be successful in the long run;
- strengthening the horizontal relations and decentralisation are interdependent and conditional upon one another.

Main objective

The objective of the project is to promote a self-sustainable development based on the co-operation of the region's actors. For this, it should support the establishment of relationships, institutions, the inducement of a process that will help the foundation of new enterprises, the enhancement and improvement of the adaptation capabilities of the existing ones, and the involvement of external resources. The project is seeking answers for such questions as, whether the region's actors are thinking and working together, how the existing structures and institutions should be changed, what kinds of institutions should be established according to the new market conditions. The other objective is to force the region's decision-makers to think together in spatial terms.² While the traditional regional plans focus on the development of a more efficient physical environment, this work concentrates on the balance between economic development, and its natural and social environment.

Work programme

The portrait of South Transdanubia

This part gives the short diagnosis of the situation in South Transdanubia. We show the region's position within Hungary, its internal structure as well as its external (European) relations and potential. We analyse the soft and hard infrastructure. The analysis is focused on the region and the competitiveness of its economy.

In this first phase, one major task of the programme management is to make the region's actors and the government realise their own interests, to help develop the necessary institutional background, and to provide the financial resources for programme development.

In the region the previously existing clusters have disintegrated, and the market competitiveness of the products decreased. For this, it is important to find the potential clusters, to give a prognosis on international market opportunities, and to determine the necessary infrastructural and institutional conditions. Thus, by the use of questionnaires, we collect primary information from enterprises³ having significant impact regarding the formulation of economic strategy.

Elaborating development strategy

It includes: discussion on the results of the first phase; organising regional task forces; launching co-operation; exploring development opportunities, and their comparisons; assessing individual business plans and their regional harmonisation; formulation of opportunities based on the regional vision of the future; formulation of a blue-print type proposal.

Implementation (expected result)

The implementation means launching actions and establishing institutions that are not only the concrete manifestation of certain elements of the concept, but are the seeds for the continuous changes and adaptability.

For the success of the individual programmes the support of the institutions with different authority should be maintained. During the realisation process the organisations involved in the implementation as proposed in the concept, should establish relationships with the most important decision-makers of the region. In this way the organisation can avoid entering into a conflict with existing organisations, and there will be opportunity to concentrate on areas of common interest.

Elements of the concept can be achieved by government investment, as a programme of local governments, and by economic decision-makers.

The concept can provide help (background) for the counties, small areas, and settlements, in formulating their own programmes, also it can serve as an effective tool for interest realisation.

Several concrete business plans can be built on this development concept. A greater chance for success exists since they are built in a programme harmonised, accepted and supported by several actors. The contents of the concept can be used to evaluate credit applications, too.

Project organisation and management

This programme is new in terms of financing and management. The work started on local initiatives and an increasing number of different types of organisations at various level have found their own interests in the programme. Thus, they supply information, cooperate, and provide financial support for its implementation.

On the government side several Ministries provide financial support for launching the programme. Due to the start of the work the South Transdanubian Development Fund was established to serve regional development, and also to act as the programme leader. This organisation was founded as a *provisional* solution within the limits of the current legal conditions. (Founders are the county and local governments and banks. It is expected that the Chamber of Commerce, enterprise promotion offices, associations of local governments will join.) This institute and the programme could be the functional and institutional seed of the European NUTS II level, that could gain its final form as the work proceeds.

The concept development was undertaken by the Transdanubian Research Institute (TRI) of the Centre for Regional Studies of the Hungarian Academy of Sciences together with one of the largest economic consultant firms of the world, DRI/McGraw-Hill of the USA.

The work in Phase I is coordinated by the TRI. The researchers of the institute, which is just celebrating its 50th Anniversary, represent five disciplines. Since decades they have been working on applied research in the region and providing advice to the region's decision-makers. They not only have the necessary background information but also the contacts indispensable for efficient work.

Due to the lack of a developed regional development institutional system the task of the Transdanubian Research Institute includes project management, generating

strategies related to the region, interest articulation and a particular moderating role, in addition to developing the concept.

The accomplishment of the second phase can be done in several ways simultaneously, dependent upon the demand and the sponsors. The elaboration of the foreign trade oriented economic development strategy is organised by DRI/McGraw-Hill. DRI has 500 experts located all over the world, it has a significant database, and works with methods that are registered patents. Besides the necessary information on the world market and EC the firm has Central European experience as well. They have similar project involvement in Maribor (Slovenia), and Bratislava (Slovakia), too.

We hope that the third implementation phase will be organised by the Regional Development Council and its agencies as it is proposed in the concept.

Notes

- ¹ The space of development has changed in Europe. Let the changes be denoted by "Blue Banana" or by "Blue Star", it can be noted by certainty that by the increasing importance of Northern Italy, Switzerland, Southern Germany, and Austria, Hungary and the South-Transdanubian region have proceeded closer to the centre of development.
- ² In practice, to have the representatives of counties, cities, villages, as well as academics, researchers, entrepreneurs sit down with each other and communicate.
- ³ Five hundred firms have been asked, most of them are operating joint ventures and significant exporters.

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26 CHARACTERISTICS OF MARKET-ORIENTED REGIONAL PLANNING

HENK VOOGD

Introduction

Public authorities in many countries in Western and more recently also Central Europe have in recent years adopted a distinctly different attitude towards the role of markets within public planning. We may notice an increasing role for private sector-led initiatives and simultaneously a reduction in government control and financial support for such projects. Evidently, there has been a growing need for public-private sector partnerships in creating successful revitalisation of regions and urban areas.

Planning authorities are increasingly aware of the market context within which their activities occur (see for an elaborate treatment of market-oriented planning: *Ashworth-Voogd*, 1990). This may seem rather obvious for countries like the USA and a number of West-European nations which traditionally have a decentralised, more liberal, planning system. Market-oriented planning, or more briefly market planning, certainly provides an interesting perspective in countries where many public facilities (housing, public transport, infrastructure, etc.) are still financed and/or regulated by the government.

The adoption of a more market-oriented regional planning usually results in a clear shift in approach from a more "regulatory" planning towards an "incentive" planning. In essence this means a substitution of an approach from the ordering of space and its organisation (the supply side) by attention to the wishes and needs of actual or potential users (the demand side). It is a simple recognition that many spatially related activities, such as housing, employment and recreation, operate within a "market" whether explicit or not, and the operation of such markets have important effects upon each other. As is treated in more detail by *Ashworth* (1993), spatial images may play an extremely important role in this process.

This paper will endeavour to define more closely the concept of market planning as elaborated in *Ashworth-Voogd* (1990). It will then examine the peculiarities of its application to the field of regional planning. The consequences of the development of a significantly new philosophy and methodology for regional development will be outlined and discussed.

Market planning

As has been outlined elsewhere at greater length (*Ashworth-Voogd*, 1988, 1990) the marketing of space and spatial qualities implies much more than a fashionable terminology and four colour leaflets. Numerous regional activities operate within a

market whose objective is the bringing together of supply and demand. The efficient functioning of cities depends essentially upon the efficiency of their operations, including their competitive positions, within such markets (*Hawes et al.*, 1985).

In theory all activities have a user, whether regarded as customer, client or recipient, and thus all operate within markets, whether consciously or not, and whether or not the activities are directly priced, managed by public authorities, or undertaken for objectives other than directly attributed financial profit. The regional markets for housing, recreation and many other services are just as real as the commercial capital investment market and their functioning may be as significant for the economic prosperity of a local authority (*Grether*, 1983).

Evidently, an inefficiently operating housing, education or health service market will have a direct negative effect on the total regional production system. An oversupply of such facilities in relation to demand is clearly wasteful of scarce public resources and may even damage the environment, while an undersupply of such facilities as housing, schools, publicly provided health or recreation facilities is at the very least a disincentive to new exogenous investment.

In general, there are several types planning intervention in case of market failure, for example:

- The provision of *information* relating to an area as a whole to create or strengthen an image in support of private developments;
- The provision of a *stimulus* through development and improvement of economic and environmental infrastructure;
- The *regulation* of development to prevent regional functions becoming self-defeating by damaging the resources on which it thrives.

Market planning implies that central or local governments must intervene in selected markets so as to provide the infrastructure framework necessary for private developments to operate profitably, but also to ensure that such developments do not become self-defeating by destroying the assets on which they are founded. Essentially, market planning involves procedures and strategies through which regional space is adapted as far as possible to accord with the wishes of selected target groups with the objective of creating the conditions for the efficient operation of the social and economic functions and activities of the area concerned.

In market planning, spatial development policy is inseparably linked with place marketing and especially through the regional development plan, which is largely instrumental in determining the dimensions of the future "product". The expectations and approaches of physical planning therefore form an important link between place marketing and spatial policy as a whole (*Ashworth-Voogd*, 1988). Physical planning practice teaches us that there is an obvious difference between a traditional regional planning approach and a market planning approach. Traditional physical planning is mostly to a considerable degree "supply-oriented", i. e. the attention is usually focused on investigating the constraints and physical possibilities of the existing built environment. The "demand"-side is often considered as a deduced phenomenon that is usually only treated in daily planning practice in terms of goals and objectives and not as an analytical subject to structure the treatment of the built environment.

Market planning, however, is much more "demand-oriented", i.e. spatial functions and possible changes of the regional facility structure are considered from the pers-

pective of the actual and potential consumers or target groups. It is far more directly goal-oriented linking the professionalism of the managers with the users and potential users of the planned product. The "interest groups" of conventional planning are replaced by "customers" which implies a different relationship.

An important task in market planning is to inform the consumers about the "supply-side" and to invite them to make use, or more or different use, of it. Such promotion is not only relevant in most public services but necessary for their efficient operation. There are other subtle differences of accent that together mark a distinct break with past approaches and implicitly allow, if not encourage, the application of marketing techniques. The important management instrument for the control of functional land-use change is supplemented by a more positive encouragement of the desirable rather than the prevention of the undesirable. The pursuit of such policies leads directly to the shaping and projection of suitable images through the built environment and similarly the removal of aspects of the built environment which contribute towards negative images of the region and/or its parts (Ashworth, 1988; Ashworth *et al.*, 1989; Nevin-Houston, 1980).

Market planning processes

Physical market plans generally aim at three goals:

- a *developmental* goal: they should provide for new activities by presenting prospective stimuli;
- an *organisational efficiency* goal: they should provide a framework for the integration of different regional policies with spatial consequences;
- a *promotional* goal: they should supply information to third parties (i. e. other government bodies and potential customers/users) about the city's potentials and priorities.

In order to meet these goals an iterative planning process is followed.

An essential characteristic of this iterative process of is that after each iteration the various steps will be more detailed, more operational. Step 1 is denoted as "orientation". In the first round this may be the launching of an idea, in the following rounds this may involve more complex tasks such as an extensive "auditing" to analyse the strengths, weaknesses, opportunities and treats of the organisation in relating market to the regional or urban "product". This is called a SWOT analysis.

The orientation phase should result in a "plan" (step 2). The notion "plan" must be broadly interpreted, for instance in the first iteration ("launching idea") the entire "plan" may be written on one single sheet of paper, announcing the proposition to write a report on a certain issue. In following rounds step 2 can indeed be the making of a report, a structure scheme or project plan. The activities in step 3 are all directed to win support for the plan developed in step 2. Evidently, if there is not enough support one has to consider alternative directions (step 1), which may - but need not - imply that the whole process is back to the beginning.

Step 3 is to a large extent devoted to information and communication activities. There is of course a strong relation with the way the "plan" of step 2 is presented, because also in this case the expression "The Medium is the Message" has meaning. The promotional function of the plans implies that much attention is devoted to its design and lay-out.

Step 4, the financial-economic feasibility or implementation of the proposals, will not be emphasised in each round. However, the more iterations there have been, the more important this step will be. It often also includes the investigation of *public-private partnership* constructions (Davis, 1986).

Finally, step 5 in this market planning process is denoted as "actions". In the first round this may mean that organisational and budgetary measures are taken to support plan-making and research in the next iteration. In following rounds this step may involve the start of implementation planning or even the start of actual building activities.

The structure of the market planning process can be recognised in several urban revitalisation processes (Ashworth-Voogd, 1990). Important characteristic of this process is that each round or iteration results in a "refinement", for instance in the case of step 2:

- from idea to proposal,
- from proposal to formal plan,
- from formal plan to proposal for elaboration area(s),
- from elaboration proposal to elaboration plan,
- from elaboration plan to public-private agreements,
- etc.

This process also differs from conventional planning schemes by the intentions of step 5. The "actions" in the various rounds are mainly directed to *enable the next iteration*. Evidently, this in turn affects the content of the plan (step 2), which must offer enough points of contact for further attention, for instance by designating in a region specific so-called "elaboration areas" or by offering financial or other incentives.

Market planning as an exponent of changing social perspectives

The change of thinking about urban and regional planning can not be seen separate from the shift of appreciation for the role of government in the last decade, both in Central and Eastern Europe as well as in Western Europe. After WW-II there were high expectations in most European countries with respect to the guidance by the government of social processes (Burtenshaw *et al.*, 1981). These expectations were fed by the fact that public authorities were really able to exercise great influence by own investments in a number of areas such as housing, road-planning and welfare facilities. This was not only the case in former socialist republics, but also - of course in a different political setting - in Western Europe. Especially in the period of reconstruction of Europe, the role of public planning in the "making" of a new world became very evident. In order to control these processes and its spill over effects, a constantly growing system of planning procedures, laws and regulations developed in the sixties and seventies, as well as a increasing bureaucracy. This expanding complexity resulted in a growing release of "frictional heat" and in the seventies the public planning in several European welfare states started to show signs of overheating. This was even enforced by fact that many governments suffered heavy budgetary problems because of the economic recession.

Parallel to these social developments, also the thinking about regional planning evolved. In the fifties and sixties planning practitioners were still concerned with

giving direction to the long-range development of the community by means of "blue-print" comprehensive plans. In those days regional planning, both in Eastern and Western Europe, was highly substantive and design-oriented. At the same time, there was in Western Europe and the US a growing international disenchantment with this traditional approach (Faludi, 1973).

Manifestations of the dissatisfaction with "blue print" planning have taken at least three major avenues: a) efforts to make planning more responsive to the needs of clients and decision-makers (Davidoff, 1965; Friedmann, 1973); b) efforts to improve planning through improvements of its methods and techniques (Friend-Jessop, 1969; Voogd, 1983; Dutton-Kraemer, 1985); c) efforts to improve planning as an administrative task (Wildavsky, 1964; Pressman-Wildavsky, 1973; Gilbert-Specht, 1977).

These, and many other, reactions to the shortcomings of traditional blueprint planning emphasise the process character of public decision-making. Especially the work of the British "IOR School" (Hickling, 1974; Friend *et al.*, 1974) received much attention in this respect and it inspired, among others, Faludi (1987) to develop a "decision-centred view" of planning. In his view planning is co-ordinating decisions by making them form a meaningful pattern. In accordance to the ideas of the "IOR School", plans are seen as "commitment packages" which should stimulate certain actors to further action. From this perspective the ultimate goal of regional planning is no longer a well-organised and livable regional space but a well-organised public decision-making (Faludi, 1987). However, in practice both kinds of goals may very well coincide, for instance by assessing equity effects of potential decisions in planning evaluation (Miller, 1985).

The current interest for a more marketing-oriented way of regional planning suggests to some extent a return to the "blue print" plans of the fifties and sixties: regional plans include again promising full-collared maps and explicit targets that convince the reader that the situation in ten or twenty years time will be highly improved. In contrast to the traditional plans, these market-oriented plans do not specifically aim at implementation but more to *stimulate* certain social groups to become actively involved. As such, market planning draws on some of the ideas of the "decision-oriented view" of planning. However, it also implies a shift in modes of thought. For instance, market planning is focusing on target groups and competition instead of interest groups and co-ordination. Market planning not only involves the development and implementation of organisational and spatial-functional strategies, but also of promotional strategies for influencing place images. This aspect is elaborated in more detail by Ashworth (1993).

The iterative structure of a market planning process, as outlined in Figure 26.1, can be very well recognised in the regional planning policy of the Dutch national government. There have been four national physical planning reports in the Netherlands since the Second World War (1960, 1966, 1975, 1988) each was both a reflection of the prevailing conventional wisdom in planning and a set of guidelines for the more detailed subsequent provincial, regional and local plans. The fourth such national report (published in 1988, in revised form in 1991) is in marked contrast to those immediately preceding it in its broad brush approach, and its switch of emphasis from the amelioration of the consequences of economic growth, such as congestion, environmental damage and regional inequalities, to an attention upon encouraging the conditions within which further growth will occur. An important element of this

market-oriented approach of this "fourth national report" is the designation of so-called "elaboration areas", with the important purpose of continuing the discussions, started by the fourth report, for a number of regions with relatively high development potential.

For similar reasons, a number of major cities (Amsterdam, Utrecht, Rotterdam, Groningen, etc.) also received the status of "urban nodal points". From reactions on the fourth report it became obvious that the city authorities appreciate this award like a restaurant wanting a star from the fabled "Guide Michelin". The city of Groningen, for example, is seen in the fourth national report as the northern centre of economic activity that is both an outlier of the main national cockpit of economic activity in the Western Netherlands and expected to act as the generator of economic expansion for the rest of the northern region. The planning task in the light of these assumptions, is clearly to facilitate development by a combination of judicious public infrastructural investment and the engendering and promotion of a suitable climate for new and existing private economic activities.

Some concluding remarks

The initial question implicitly posed but not directly answered in this paper is whether market planning is a specific procedure, one of many instruments available to the regional planner, to be applied in appropriate situations, or alternatively is it a pervading philosophy of planning, a way of identifying, defining and solving regional problems, in brief a distinctive way of managing cities. There are reasons to advocate the latter. Many of the methods and procedures of market planning are already very familiar. However, the central themes in a market planning process are not "choices" or "uncertainty". The central theme of market planning can be denoted as *will-shaping*, i.e. the forming of a common mental faculty by which people deliberately choose of decide upon a course of action. In this respect market planning also resembles concepts in planning theory which see planning mainly as a "communication structure" (Habermas, 1973; van Gunsteren, 1976).

In summary, the emphasis in market planning can be best described in terms of a few key words, such as:

- a demand-side orientation instead of a supply-side orientation,
- an approach based on competition instead of co-ordination,
- focusing on target groups instead of interest groups,
- stressing spatial stimulation rather than regulation.

Evidently, regional market planning can only be successful if it is based on a sound knowledge of the must always be based on a sound knowledge of the region under consideration. However, regional characteristics should not be examined simply on an absolute basis, but they should always be studied relative to the characteristics of competing alternatives. The question here is always "which choices do people or firms have?" and "how might people or firms with a choice between several competing alternatives trade-off the various characteristics against each other?" A careful market analysis will reveal that different market segments make different trade-offs. For instance, priorities of consumers in a housing market may differ considerably from priorities set by consumers in a recreation market. This demonstrates the importance of performing an accurate and relevant market segmentation and a careful analysis of the potential alternative facilities within each segment.

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27 THE REGIONAL PATTERNS OF POLISH TRANSFORMATION

GRZEGORZ GORZELAK

Economic restructuring

Industrial restructuring

According to the urbanisation-industrialisation-welfare pattern, big Polish urban centres are also the industrial centres (*Figure 27.1*). New processes have not changed this general pattern, on the contrary – industrial restructuring brought even greater concentration of industrial production in the leading regions.

Table 27.1 presents the shares of strongest regions in the total industrial production of Poland. The cumulative share of the first 12 voivodships in the national industrial production grew from 58 per cent, in 1989, to 62.5 per cent in 1992. The share of the 12 least industrialised regions was stable and equal to 5 per cent.

Table 27.1

*Shares of leading regions in industrial production, current prices
(1989: socialised sector only)*

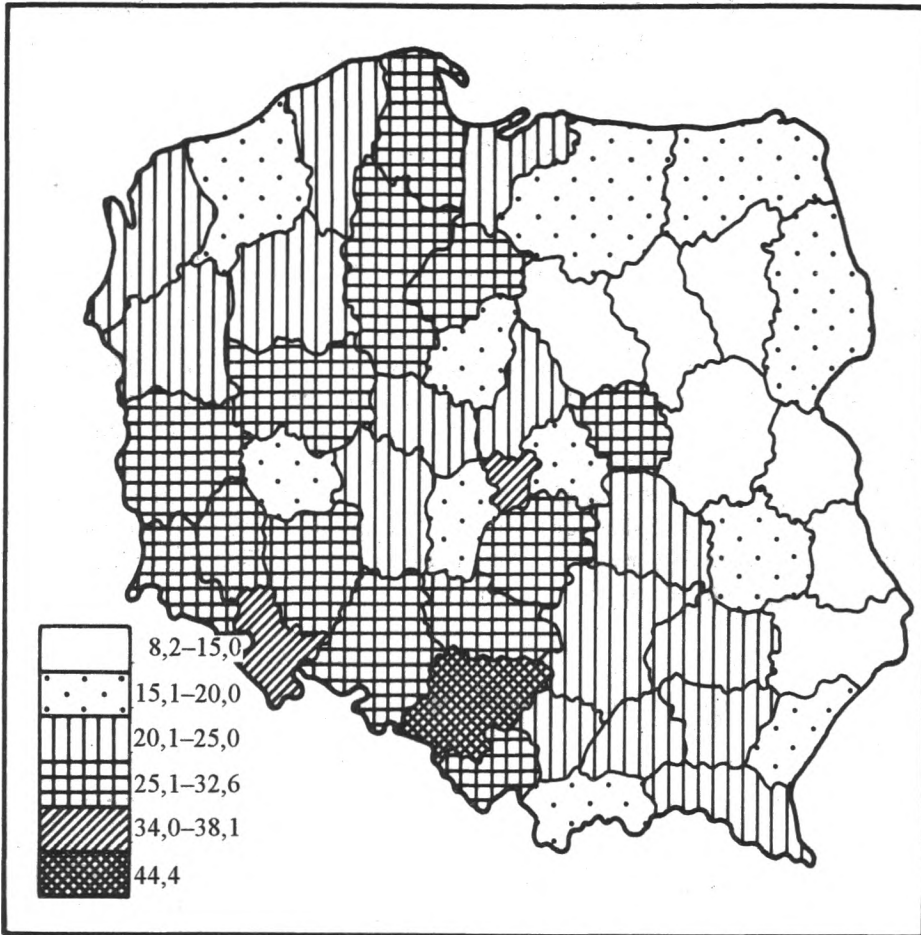
Regions	1989	1990	1991	1992
Katowice	15.5	16.9	17.8	17.3
Warszawa	7.8	7.8	7.8	9.3
Łódź	4.3	3.7	3.4	2.9
Kraków	3.9	4.2	3.9	4.1
Gdańsk	3.8	3.9	4.3	5.0
Poznań	3.7	3.9	4.4	4.4
Bielsko-Biała	3.5	3.2	3.1	3.3
Wrocław	3.4	3.1	3.0	2.6
Płock	3.2	3.7	3.6	4.9
Bydgoszcz	3.2	3.0	3.3	3.4
Szczecin	2.9	2.8	2.6	3.1
Opole	2.8	2.9	2.8	2.2
Legnica	2.7	3.6	3.1	2.1

Source: Raport o polityce regionalnej.

The restructuring processes have taken place in several branches of Polish industry. However, until now these have been mainly the “negative restructuring”, i. e. the process of curtailing several directions of production and closing down factories, almost entirely in the public sector.

Figure 27.1

Share of working in industry in the total number of working, 1991



Particular industrial branches have presented different performance. In general, most of them have undergone deep decline in 1990 and 1991. In 1992 this situation has changed dramatically. Traditional branches of heavy industry have still been in deep decline, while consumer-oriented branches showed substantial growth in 1992. These processes have also persisted in 1993. It can be easily foreseen that these tendencies will persist also in the future and that they're will mark they effect on the performance of particular regions.

Restructuring of local systems: case studies

There are several typical cases of economic restructuring.

Lubawka, a town and adjacent commune in the South-Western corner of Poland, presents much greater chances for re-development. Currently this local system is in a very difficult situation, since its main industrial enterprises have collapsed (textile

factory, which used to employ 1,264 persons, has shed all of its employees by June 1, 1993; asbestos plant will be partly closed in the near future due to ecological reasons; several other firms have losses and are the edge of bankruptcy); this situation is further aggravated by the collapse of state-owned farms.

The border crossing to the Czech Republic is the major opportunity for this particular locality. At present, this crossing has more of a local character. However, one of the major highways will pass through Lubawka. Survival to the moment when this highway is constructed, and one of the major frontier points is opened will be the main problem of this locality for the coming years. Will it be able to sustain it self despite current difficulties and preserve some human and economic potential to meet this opportunity?

Dziaidowo presents still another type of a local problem. This is a town located in mid-Eastern Poland, some 200 kms north of Warsaw. After four centuries of belonging to Prussia it came back after World War I to Poland. The population of the town and adjacent commune amounts to some 30,000 persons. It used to be a locality which based its economy on two sectors: agriculture and transport – Dziaidowo is a major railway node. the collapse of the state-owned farm, which owned more than half of all agricultural land in the commune, resulted in leaving 800 persons without work and further 200 jobs are to go in the near future. In the town Dziaidowo there are 2,500 unemployed and the unemployment ratio reaches 25 per cent.

The commune Dziaidowo used to be a locality “run” by the state-owned farm – almost like Starachowice used to be a “company-town” which developed by the truck factory. As in Starachowice, the collapse of the state farm left the commune without its economic base and without the sole supporter of its infrastructure. No other work opportunities are available, since town and commune Dziaidowo are surrounded by localities in a similar situation. There is no will of private farmers to buy land left idle by the former owner, due to low profitability of agricultural production and lack of capital.

Dziaidowo may have its chance in developing diversified industrial structure. Some examples of involvement of foreign capital have already emerged: the German capital owns 75 per cent of the glass factory, which has a 20 per cent share on the German market. The location advantages on the crossing of major railways are the best opportunity for Dziaidowo and this asset should be developed as the first priority.

Starachowice is a town of 60,000 in South-Eastern Poland. It is the third biggest town of the Kielce voivodship. Since the ancient times iron production used to be the main direction of economic activity. The programme of the Central Industrial District related to these traditions. Starachowice became one of the centres of the entire undertaking. During the post-war period a major investment – truck factory – was located in the town and soon it became the sole development factor of this medium-sized urban system.

In the 1970 there were 26,000 trucks produced yearly and the maximum employment reached 14,000 (half of all working people in the town). Since the end of the 1980 the truck factory entered into deep decline and there is no chance of coming back to the previous prosperity. The yearly production has been constantly dropping: 6,000 trucks in 1990, 2,400 in 1991, 1,600 in 1992. Employment declined at a bit slower pace: 6,600 in 1990, 4,700 in 1991, 4,300 in 1992 (in mid-1993 employment equals to 4,200 persons). Overmanning is therefore a next problem for the factory management (it is estimated to some 20–80 per cent, depending on the plant and type of work).

Competition from much better and – if bought second-hand – also cheaper trucks from the West was the main reason of this decline. Also shrinking demand of the army added to these difficulties.

This situation cannot be solved. No serious Western truck-producer seeks contacts with the Starachowice factory. It does not have itself sufficient funds (it is even seriously indebted to the tanks, to the state and municipal budgets and to its suppliers) to undertake designing and preparatory works to propose a new, competitive model of a truck.

This hopeless situation of the factory makes the situation of the town also very difficult. The factory was not only the main employer for the town and the adjacent communes, but also was the owner, or the founder of a main part of town social and technical infrastructure. The collapse of the factory (accompanied by the difficulties of other industrial firms located in Starachowice) in all dimensions means also the collapse of the town.

There are 6,500 unemployed in Starachowice and the unemployment rate reaches 25.3 per cent. These rates are even higher in adjacent rural areas, up to 40 per cent for non-agricultural population in one of them. The graduates of the narrowly profiled semi-secondary vocational schools (the schools were run by the factory and prepared young men for becoming its workers) constitute almost 40 per cent of all unemployed in Starachowice.

The labour market of Starachowice cannot be healed even by very active and efficient approach of local authorities and governmental services responsible for coping with unemployment. In result of these activities 1,200 persons obtained temporary jobs at the “intervention works” and 69 permanent jobs were created; Almost 100 unemployed were involved in public works; 96 persons were retrained; 383 jobs were created with assistance of credits directed to firm employing unemployed and the unemployed themselves; 14 persons were employed at infrastructure projects, financed by grants from the government. In spite of all these initiatives the local labour market will have to be applied for the next several years.

Starachowice is a typical example of a company-town of South-Eastern Poland. Almost entire area of the Central Industrial District is in the same, difficult situation. This was one of the main suppliers of specialised machinery, to a large extent subordinated to the specialisation directions adopted within the COMECON and then located in the eastern markets. This region has been struck by the collapse of the Soviet empire especially strongly. The chances for its revitalisation are bleak, mostly due to location disadvantages and to relatively poorly developed infrastructure. Moreover, the educational profile of the labour force was shaped by the needs of the industry and retraining is rather difficult.

These three examples well illustrate different types of local economic restructuring. They prove how difficult a local economic – and therefore also social – situation may be and to what extent the chances for its improvement lie outside a given local system.

The case of the “Tourist Six” municipalities located in the South-Western part of Poland may be recalled to illustrate the development of a local system based on own potential.

Five of these municipalities are crossed by the international road E-67 Prague-Wrocław. One of the most busy Polish border crossings, capturing most of the traffic from South-Western Europe, is located on the Polish-Czech frontier in Sione, in Kudowa municipality.

The area forms a natural environmental entity. Natural conditions favour health services, recreation and winter sports. Snow may last until April and on the northern slopes even till early July. Climate is relatively mild for highlands, which is the result of oceanic influences of Atlantic. The shrine of Wambierzyce – a pilgrim place – attracts several thousand of visitors yearly. Moreover, the area has long traditions of hosting visitors and tourists.

No other local economic sector can compete with tourism, especially in a situation where all other economic sectors of the locality are in a deep decline. The glass factories undergo deep restructuring, the plant producing electrical equipment for cars is in decline, the textile factories have lost their market and have shed jobs etc.

The tourist sector itself must undergo deep restructuring, too. In contrast to industry, this restructuring has good chances for final success. The state tourist sector has collapsed almost entirely. It had been heavily subsidised and when subsidies were withdrawn the demand shrunk dramatically. The private sector develops but is still weak both in terms of material structure and professionalism. Education and diffusion of positive examples appears to be one of the most efficient method of enhancing local potential of the private tourist sector.

In response to these opportunities and challenges, all six municipalities created an inter-municipal association Consortium Tourist Six, a public body. The municipalities have input initial capital. Activities of the this sort have already led to collecting several grants and getting logistic assistance from several institutions and state agencies. Foreign contacts have been established, which will help in broader promotion of the region and its tourist services. In the next tourist season the consortium will act at the local “manager” and promoter of the main parts of the local tourist system. This example has also been publicised among other tourist regions and localities in Poland which will use the positive experience in developing their tourist activities.

It should be noted that the “Tourist Six” is, formally, a part of the deeply depressed old industrial region – Waibrzyeh voivodship. In the T6 itself, the unemployment rate reached 15–16 per cent. This example demonstrates, however, that within larger spatial settings which are generally labelled as declining or needing assistance there may be “enclaves” of opportunities and local potentialities which may be developed by the activity of local authorities and the representatives of the local private sector. The positive role of new institutions is the best lesson of the “Tourist Six.”

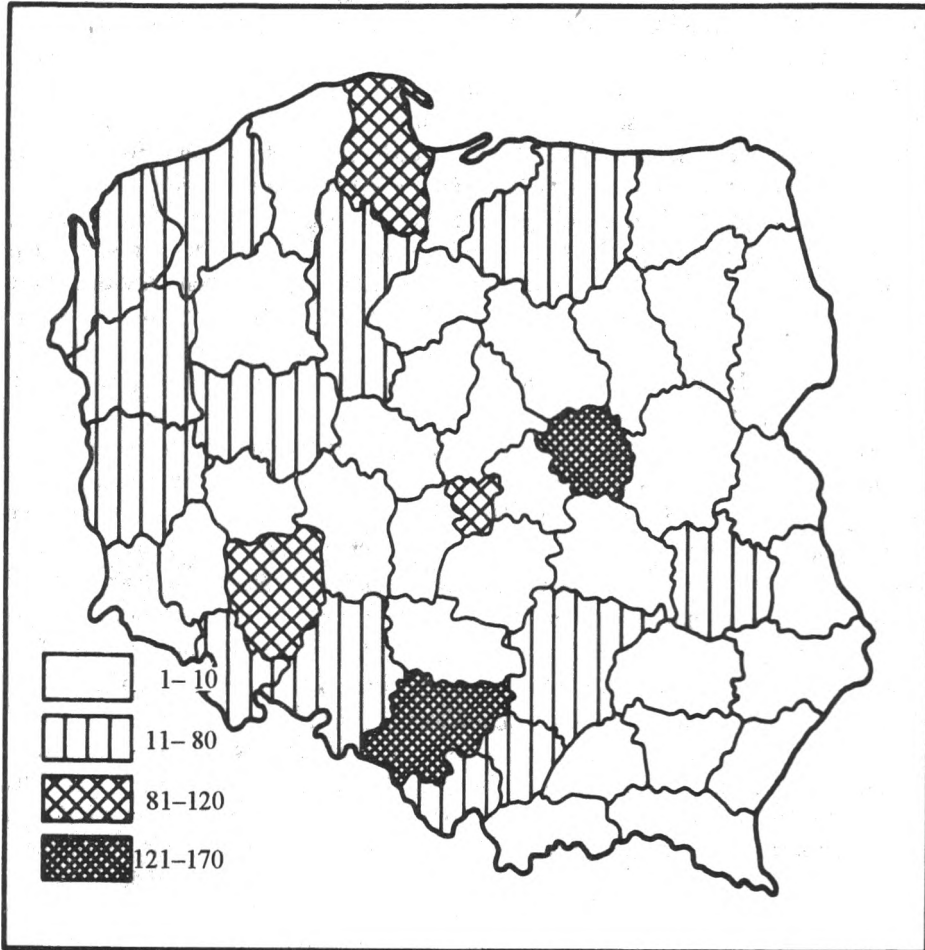
Privatisation

During the period 1 August 1990–31 December 1992, 2,052 state enterprises were privatised in Poland, which constitutes almost 30 per cent of the total number of state enterprises. In 1,568 enterprises a liquidation process has begun (715 of enterprises in bad economic situation, 853 of enterprises sold in pieces to external buyers). Until the end of 1992, 486 enterprises were privatised in the “capital” way.

In effect, by the end of 1992 over 50 per cent of economically active population were working in the private sphere, out of which approximately half outside agriculture. Several branches, like services and trade, have been privatised almost entirely.

As in other processes of transformation, the regional differentiation of privatisation is great. *Figure 27.2* presents the regional patterns of privatisation.

Figure 27.2.

Regional distribution of privatisation processes, end of 1992

As in several other processes, the fastest pace of privatisation occurs in highly industrialised regions. This is particularly true for the “capital” way of privatisation. In several eastern regions of Poland there were no such cases, while in the Katowice voivodship 27 companies were privatised in this way and in the Warsaw region 24.

The most dynamic changes in the ownership structures took place in the domestic trade, the most “natural” sector to be privatised (it is composed of small establishments which do need massive capital input). Once again, the “city-regions” were the fastest in the privatisation process.

There are several concentrations of the private business in Poland – usually in the vicinity of big cities. The private business belts around Warsaw and Poznań have developed even in the 1970s and have maintained their exceptional economic structure in the 1990s.

The commune of Lomianki, just north-west of the city of Warsaw, may be one of the best examples of such cases. Its population (town and adjacent area) equals to 14,000. There are 85 Ltd. companies; two thirds of them being small, since they employ 5 persons or less. However, there are 550 firms owned by physical persons and further 132 personal companies. Most of them operate in manufacturing and in commerce. This high activity of the private sector in Lomianki is reflected in accelerated development of housing and social and technical infrastructure. Moreover, it has easy access to the facilities offered by nearby Warsaw. Lomianki is by far the richest municipality in Poland, since the own revenues of the municipal budget are, in their main part, constituted by taxes and fees paid by private entrepreneurs.

However, as these entrepreneurs claim, the "golden era" of their businesses is over. The unsatisfied market of the socialist system offered the best conditions for their operations. Everything that was produced could easily find demand, which is not the case nowadays, when the market is limited on the demand side and when competition for abroad has a great share of all purchases.

In any case, however, the localities which have long traditions of private business, which are well equipped with municipal and technical infrastructure and which are located close to the big markets of large urban centres, have by far better chances for adapting to new conditions. The Lomianki municipality, no doubt will survive the worse times and will re-emerge as a whole-national leader of efficient production and favourable living conditions.

The commune of Krynki could be considered as an contrary example to entrepreneurial Lomianki. This is a rural, backward economic system, located by the border with Byelorussia. The population of 4,100 inhabitants is getting smaller, due to constant out migration. This population is dispersed in 29 locations, most of them not exceeding 40 inhabitants. Infrastructure is not good – there is no rail, telecommunication systems are outdated. Agriculture is by far the most dominant sector. However, it is poorly developed, farmers are getting old and the share of market production is low. There are only 19 private firms which provide jobs to 151 persons, mostly operating in service oriented to the local (very small) market. The biggest firm employs ten persons. Unemployment soars – there are 346 persons without work. There are no institutions which would stimulate restructuring processes, run training and retraining courses, assist the private sector etc. No programme of local economic strategy exists. This commune would not be able to compete on the capital markets for new investment and for inflow of external (foreign or Polish) capital. To some extent, such an area is sentenced to stagnation and backwardness – at least in the foreseeable future.

Foreign capital and new international setting

It has been commonly accepted that the restructuring process cannot be performed without massive inflow of foreign capital into the Polish economy. First signs of this process can be already seen – until 1992 some 2 billion USD were invested in Poland, sometimes in big, future-oriented projects. In the economic scenario, it is envisaged that after the year 2,000 the foreign capital inflow will reach 7–14 billion USD yearly.

It is obvious that there is deep regional differentiation of foreign investment in Poland. Two types of regions are highly preferred by investors: big urban centres with

good international (au) transport and telecommunication facilities, which – at the same time – may offer good living conditions and the whole western part of the country. International capital locates itself in the urban centres – the German capital concentrates in the Western part of the country. The eastern parts of Poland, to a large extent, have been inundated by foreign capital (though some joint investment was done, mainly in food-processing industries).

The regional differentiation of the involvement of foreign capital in Poland is presented in *Table 27.2*. Among the first ten regions listed in this table we find two types of units: big cities and regions located in the western part of the country. This pattern reflects the priorities of Western capital in locating its activities in Poland.

Table 27.2

Foreign capital in Poland

Rank of Voivodships	Companies with foreign		
	in absolute numbers	Poland = 100	1991 = 100
1. Warszawa	3,569	35.2	228
2. Gdańsk	739	7.3	197
3. Poznań	705	7.0	184
4. Katowice	685	6.8	235
5. Szczecin	529	5.2	187
6. Wrocław	452	4.5	228
7. Kraków	396	3.9	206
8. Łódź	371	3.7	183
9. Zielona Góra	224	2.2	215
10. Opole	185	1.8	240
Poland	10,131	100.0	211

These first ten regions concentrate more than three quarters of all joint ventures registered in Poland in 1992. They also present high dynamics of further growth. On the other pole we find eastern voivodships, where there are very few such companies (Zamosć: 11; Ostrołga: 15; Łomża, Przemysł, Tarnobrzeg: all 16; Chełm, Krosno: both 17).

There is no data available on the regional distribution of foreign capital invested. One may presume, however, that the spatial concentration of investment will be even higher than of the number of establishments with foreign capital, since companies established in big cities are greater than those located in the peripheral regions.

Activities of foreign capital and international contacts of Polish businesses do not only change the economy. They also change the landscape of Polish cities. Warsaw, the biggest city and the greatest concentration of foreign investment, is perhaps the best example of these changes.

Changes are visible not only in the city centres. In peripheral concentrations of blocks with dwellings, which used to be infrastructural and commercial deserts, new initiatives emerge. Vietnamese restaurants appear, new newspaper stands with elegant designs flourish, services develop. On the previously sad and uninteresting way home

from work, the inhabitants of such block compounds are becoming attacked by advertisements, attractive windows of small shops, cafes and restaurants.

These changes are not limited to big cities only. In a town of some 30,000 inhabitants, two competitive dealers of Peugeot and Renault share two opposite corners of the street crossing. Advertisements of Scholler ice-creams are displayed in small villages etc.

All these examples – from a sky-scraper and luxurious hotels in a big city, through an elegant Ford shop in a medium-sized town, to a sign of Coca-Cola in a village – are the manifestations of the new economic reality which change the landscape of the country, making it much more colourful and interesting, but also more frustrating for those, who cannot benefit from this new reality.

During last 3–4 years 33 new construction projects financed or co-financed by foreign capital have been finalised in Warsaw. These – usually – are office buildings and hotels of high standard. The following examples can be recalled:

Further 30 investments of this kind are planned in the nearest future. In result, the city centre will soon change its outlook and its image – it will become a typical “western” type of modern city, with numerous offices, banks, restaurants, shops and diversified commercial offer. The sadness of the socialist city will soon disappear.

Regional structure of economic power

Polish economy was mainly oriented to the Eastern and Central European markets. Within the division of labour and specialisation directions adopted by the COMECON, as well as due to the technological standards of the socialist economies, these markets were not too demanding. All production leaving Polish firms could be sold, since the principles of the “economy of shortage” did not put barriers on demand.

All this changed dramatically since 1990. Polish economy has shifted its exports from the former European COMECON and, to some degree from other (mainly Third World) countries, to the EU countries. In general, it was not entirely the Polish choice, however. The former “eastern” markets closed down almost suddenly in 1991, due to different reasons. In the case of the former Soviet Union it was the economic collapse of this economic system. In the case of more advanced Eastern and Central European economies it was the result of their opening to the West and their choice to import products technologically more advanced. In 1992 Czechoslovakia participated in 4–5 per cent and Hungary in less than 1 per cent of Polish foreign trade. Poland’s exports to Czechoslovakia declined by less than 20 per cent, and to Hungary by about one-third. Moreover, the structure of Polish exports to the other three Visegrád countries deteriorated towards growth of share of unprocessed products (raw materials), at the expense of machinery and manufactured good.

As widely known, losing the eastern markets created severe economic difficulties, especially for branches oriented in these particular directions. This reorientation created severe difficulties for several regions, especially for those, whose production was to a large degree located in the COMECON markets.

When speaking about the foreign relations of Poland and their impact on her regional development one should not omit the dramatic changes of the geo-political and geo-economic situation of this country. It might be said that this new situation has

not influenced only two Polish frontier regions: the northern and the southern (or these changes will have minor impact on the socio-economic situation of these regions). Quite the opposite situation exists on the eastern and western parts of Poland.

The western and eastern Polish borders separate territorial systems on dramatically different levels of development and advancement of civilisation. Eastern parts of Germany already today are much more developed than neighbouring Polish regions and this difference will grow in time along with proceeding levelling out the intra-German discrepancies. In the same manner, Polish eastern regions – even taking into account their relative underdevelopment – are much more advanced and better equipped with infrastructure than their neighbours in the East. These differences are strengthened by the difference of overall performance of the economic systems located on both sides of these two borders. Germany is perhaps still not less attractive for Polish workers than Poland for the workers from the East. The crowds of small merchants coming from the former Soviet republics to Poland and selling their low-quality but cheap goods on the streets resembles the same floods of Polish people who sought their chances for extra income in Germany and other Western countries only four-five years ago.

Polish Eastern border regions do have much smaller chances of economic and cultural advancement than the Western border belt. Both the starting position and the character of their neighbours put the East on much more difficult grounds. In the horizon of the next 10–15 years (and presumably even longer) the Polish Eastern border will still be the least developed part of the country, no matter what kind of regional or other policies will be formulated and implemented.

For several years the list of 500 biggest enterprises in Poland has been compiled, published and analysed. The regional structure of basic indicators derived from this list creates excellent grounds for examining the regional structure of economic power.

The firms listed there are – in many cases – multi-branch companies which have their subsidiaries in several locations all over the country. They are listed in the regions in which their headquarters are located. Therefore, the regional distribution of particular indicators provides information on the regional structure of economic control of the biggest companies in Poland.

The first companies on the list are the following: Oil Refinery in Plock (approximately 2 billion USD of sales), Ciech (foreign trade agency for chemical products), Bank Handlowy (Commercial Bank), Bank PKO – all three in Warsaw, Wgglokoks in Katowice, (foreign trade company dealing with coal), Gdansk Refinery, KGHM Polska Miedz in Lubin (copper mining and processing), Agricultural Bank in Warsaw, FSO car factory in Warsaw. These are the state-owned companies which have also existed before and have not been restructured yet. The first private firm on the list (Elektrim – operating in trade) occupies the 13th position. Only a few entries on the list represent newly established firms with private capital. However, some of the companies have been sold to foreign owners or are partially owned by foreign capital. The last firms on the list have had sales of some 3–4 million USD.

Companies present on the list employ almost 1 million persons, out of which 30 per cent are employed by firms located in Warsaw. The share of Warsaw is the greatest in banking:

out of 48 banks present on the list 20 are located in Warsaw itself and Warsaw concentrates two-thirds of total employment and of total turnover of all Polish banks.

Figure 27.3 presents the number of big companies in particular regions. Once again, as in several other indicators, the "letter L" pattern is clearly visible on the above three figures. Two regions clearly break out of this pattern, with the greatest concentration of big firms: the Warsaw and Katowice region. However, these two regions do also lead in other spheres, which have been examined so far. The role of these two voivodships in hosting headquarters of big companies is obvious: Warsaw is the location of several whole-national public companies, like Post and Telecommunication, Polish Railways, and also of several banks, both privatised and public. Katowice voivodship is the location of the seven holdings which group coal mines, big steel mills and chemical plants and foreign trade companies dealing with coal. Companies which have their headquarters in big cities are usually bigger have greater sales and employ more people.

The list is rather stable in time. Comparison with the arrangement of the biggest enterprises in Poland for 1991 does not show too great changes in position. Only few companies changes their position by more than 100 places and even fewer got into the list in 1992 (the biggest advancement was made by the private firm Elektrom, which is operating in commerce, which in 1992 was in the 89th place and in the previous year was absent from the list). Thus it is rather strange in times of rapid structural changes, and leads to the conclusion that the situation of the biggest companies is more stable than the fate of smaller firms.

The list of the 500 biggest companies in Poland is a product of the past economic reality. New entries of private firms, with capital of both Polish and foreign origin, will demonstrate the pace of systemic transformation in Polish economy.

Transport ties with Europe

Poland has relatively well developed rail connections and good roads. However, even the rails need modernisation and improvement of speed and safety standards. The same applies to loading-unloading facilities of the main rail stations. International transport done by Polish firms has a share of only 7 per cent of all cargo transported in Poland. This share may grow up to 10 per cent in the near future.

Since 1980 there has been a constant decline of international cargo transport. In 1992 the weight of goods transported by Polish companies into Poland from abroad constituted only some 30 per cent of the 1980 level, goods transported out of Poland 80 per cent and goods carried through Poland 30 per cent. All shipments of goods (inflow, outflow, transit) done by Polish carriers decreased from 142 million tons in 1980 to 73 million tons in 1992. This decrease was partly compensated for (it is impossible to estimate to which level due to lack of data) by foreign companies. During the last two years this decrease has become smaller and by 1995 stabilisation of shipments is envisaged. After 1995 some growth may happen, up to 150 per cent of the 1992 level in the year 2000. The share of road transport will constantly increase, at the expense of rail shipments. Already in 1992 the number of trucks crossing Polish border grew by 50 per cent in comparison with 1991 and further fast growth is inevitable.

Passenger transport by public services (rail, bus, air, sea) has decreased, too, though not at the same pace as transport of commodities. There were 10.3 million such journeys in 1992, as compared to 13.6 million in 1990. This decrease was more than

compensated for by international journeys done by passenger cars. In 1991 Polish borders were crossed by 114 million persons and in 1992 by 194 million. 49 million of foreigners visited Poland and 30 million Polish citizens left the country in 1992. This personal movement is very likely to grow constantly in the future, along with greater openness of Poland, growth of incomes and lifting restrictions in international travels.

The border crossings are one of the most severe barriers to further development of international contacts, both in commodity and passenger transport. At present, there are 118 border crossings in Poland, but only 30 of them are used by more than 1 million persons and 9 by more than 5 million persons, yearly. These were the following:

- on the Eastern border: Terespol and Medyka,
- on the Southern border: Cieszyn, Kudowa and Zgorzelec,
- on the Western border: Slubice, Olszyna, Kolbaskowo.

The international airport in Warsaw should be added to this list with its 1.8 million passengers crossing Polish border there yearly, out of which half are foreigners. No other Polish airport may compete with Warsaw in this respect – Krakow with 70,000 passengers (out of which 46,000 foreigners) and Gdańsk (50,000 total traffic, 28,000 foreigners) are the next airports in respect to international traffic. All other Polish airports do not have traffic greater than 17,000 passengers yearly altogether.

It is envisaged that passenger international travels will dynamically grow in the near future, up to 300–350 million border crossings in the year 2000 and stabilisation, after this date, on the level of 300–350 million crossings yearly. The number of crossing will grow up to 260, out of which 61 will be on the eastern border, 131 on the Southern and 39 on the western. Road border crossings will be the most numerous (174).

The border crossings are one part only of the entire system of international flows of people and goods entering, leaving or crossing the country. These flows concentrate within the corridors, where roads, railways and waterways are located.

The regional potential for transformation

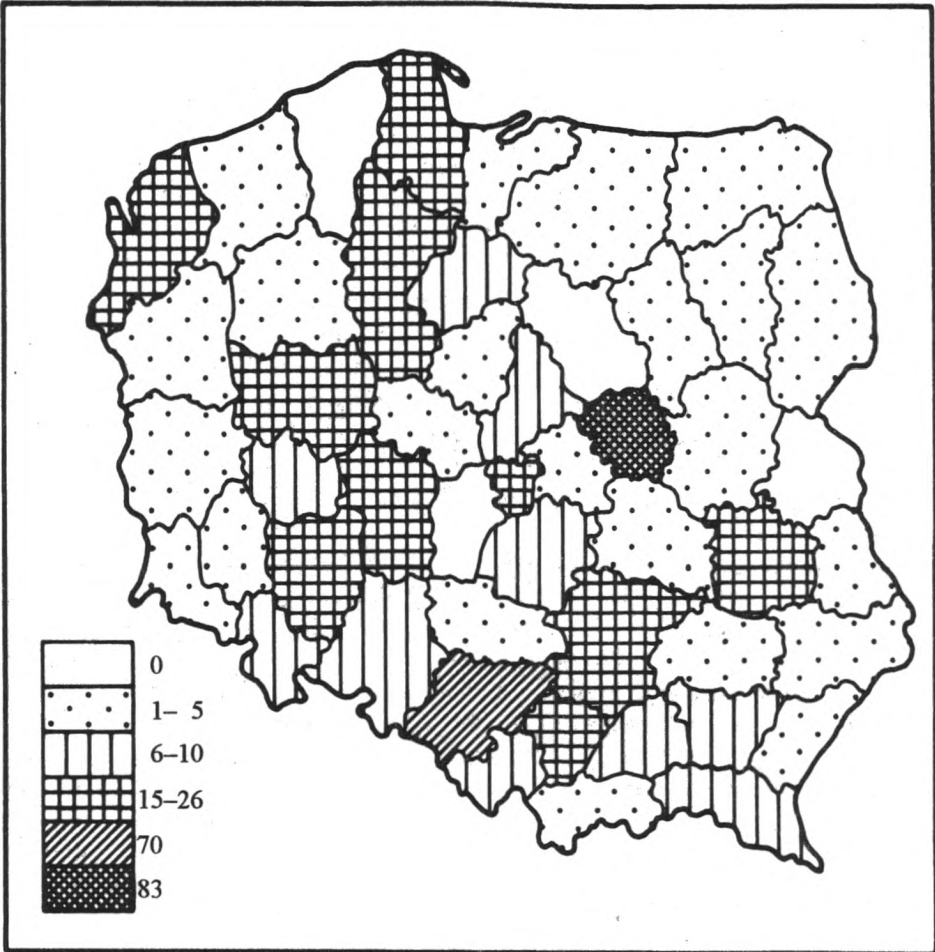
As it has already been mentioned in this report, just two years is too short period for drawing conclusions about the regional patterns of Polish transformation. However, the available data on both traditional differentiation of Polish space and the most recent processes of transformation prove one thing without any doubt: that in spite of dramatic changes in Polish economy and society, the general spatial structures of this country are stable.

The regions which have traditionally been mostly urbanised and mostly industrialised and which have been well equipped with infrastructure appeared to be the less vulnerable to the costs and negative sides of transformation. They were able to proceed with privatisation at the fastest pace, to attract new (also foreign) investment, and defend their position on the (changing) economic map of the country.⁹ In result, the traditional industrial–urban–infrastructural complex, which has shaped the regional structure of Poland has not vanished and has even been reinforced.

The strong became stronger, the weak are weaker. The polarisation effects, so visible in recent changes of economic and social structures, also manifest themselves in Polish space. It is almost sure that the growth of spatial differences will also take place in the future, since particular regions have developed – in the course of history –

Figure 27.3

Number of firms from the list of the 500 biggest companies in Poland, 1992



differentiated potential for transformation and adaptation to new economic conditions. Only some regions of Poland will take advantage of the new economic mechanism and internationalisation of Polish society and economy. For several others these new conditions lead to decline of their regional economies and create difficulties they will not be able to overcome during the coming decade.

Summing up earlier remarks on economic, social and technological aspects of regional development of Poland, we may present the regional diversification of Polish transformation along the following major dimensions of spatial differentiation, shaping the regions' ability to adapt to new economic conditions:

- 1) Diversification of the economic structure. This dimension includes also the level and differentiation of the skills of the work force, the modernity of the fixed

assets. In brief, the more diversified the economic structure, the more qualified the population and the higher level of technological advancement;

- 2) Overall level of socio-economic development. This dimension "operates" on two levels: it discriminates rural areas (less developed) from towns and eastern parts of the country (less developed) from the western part. It also captures the "regional spirit" of entrepreneurship and the scale of job opportunities;
- 3) Distance to sources of capital and innovation. Several factors are of importance here : proximity to an international airport, proximity to the western border (i. e. to the German capital) , proximity to a big urban centre. "The capital" is not restricted to "foreign capital" only, but also to domestic sources of finance, though the role of inflow of capital from abroad (and of new technologies) is of crucial importance for the overall development of Polish economy.

There are, of course, several other, already mentioned dimensions shaping the regional ability to transform, like the agricultural structure, the density of "company towns" with collapsing industry, vulnerability to decline of eastern markets, ethnic tensions, etc. However, when looking into the opportunities of particular regions for their emergence form (often accidental) economic difficulties and their potential role in transforming the Polish economy, the above three dimensions seem to be of primary importance.

Superimposition of these three dimensions produces a typology of Polish regions. It is presented in table 27.3.

The positions of few voivodships in the above table may be disputable. For example, two voivodships: Szczecin, Bielsko-Biała and Bydgoszcz may claim membership to group 1, which would be justified by the fast rate of privatisation, high involvement of foreign capital, and proximity to international airports etc. However, these voivodships do not contain big urban centres with high scientific and cultural potential. Perhaps assigning some regions to group 2 (like Elbląg, Leszno) could be considered premature. One should also keep in mind that the potential of several regions is at the moment dominated by current difficulties. For example the region of Łódź may overcome its structural crisis caused by the collapse of the textile industry, and join even the regions of type 1. Similar remarks can be also made for several other individual cases. These reservations should not, however, overshadow the fact that Polish economic space is differentiated according to the three major factors which constituted the typology and that the spatial patterns.

Let us therefore summarise – sometimes also providing some information – the situation of particular regions of Poland after three years of transformation. This summary will also lead to sketching the chances of particular regions for the coming years.

- 1) Warsaw, Poznań, Kraków and Wrocław and, to some extent, also Szczecin, with no doubt are the leaders in the Polish transformation. Unemployment is low, job opportunities much more numerous than elsewhere. The labour force is well educated, infrastructure relatively well developed. These cities concentrate the vast share of Polish scientific and academic potential. Privatisation processes are the fastest, inflow of foreign capital the greatest, growth of the service sector the most rapid. The economic situation of these regions seems promising, with the possible exception of Kraków, in which the future of the huge steel-mill, Nowa-Huta (employing over 20,000 persons), is not certain;

Table 27.3

Types of regions from the point of view of their transformation potential

Types of regions	Regions	Socio-economic structure	Level of development	Proximity to capital
Type 1: Strong leaders of transformation	Warsaw, Poznan, Wrocław, Kraków, Gdansk	Diversified	High	Good
Type 2: Well prepared for transformation	Bydgoszcz, Torun, Szczecin, Gorzów, Zielena Góra, Kalisz, Opole, Lublin, Bielsko-Biała, Leszno, Elblag	Diversified	Medium	Good
Type 3: Restructuring needed, possible	Jelenia Góra, Legnica, Piła, Koszalin, Słupsk, Olsztyn, Tarnobrzeg, Tarnów, Kielce, Czestochowa, Białystok, Rzeszów, Płock	Diversified with company-towns	Medium	Bad
Type 4: Deep restructuring necessary, difficult	Katowice, Łódz, Wałbrzych	Monofunctional (industrial)	High	Good/medium
Type 5: Presenting some potential for development	Suwałki, Ciechanów, Ostrołęka, Łomza, Biała-Podlaska, Chelm, Zamosc, Przemysl, Krosno	Monofunctional (agricultural)	Low	Bad
Type 6: Neutral, some sectors need restructuring	Konin, Piotrków, Sieradz, Włocławek, Skierniewice, Radom, Nowy Sacz, Siedlce	Diversified	Medium	Medium

These regions will concentrate the main bulk of Polish recovery and will become the nodes of technological progress, economic efficiency and cultural advancement.

It should be envisaged that the growth rate of all these regions will well exceed the national average in the time horizon covered by this analysis. It can reach up to 10 per cent yearly, with the fastest growth of the service sector (especially in Warsaw itself), high-tech industries and specialised manufacturing.

- 2) Typical old industrial regions constitute another type of regional pattern in Poland. These are Upper Silesia (see next point), Łódz and Wałbrzych regions. In the case of Łódz it is textile industry and in the Wałbrzych region coal mining

and textile industries which have constituted the economic base in the past and almost have collapsed. Traditional Soviet market for textiles has virtually closed down and coal has been almost totally extracted from the Wałbrzych pits (none of them has been closed yet). Devising promising development strategy is difficult due to the monofunctional qualification structure of the local work force, polluted environment, worn-out infrastructure and – in the Wałbrzych region – exploited natural resources. In some parts of the Wałbrzych region tourism seems to be the most promising direction of local development.

There is a marked difference between Łódź and Wałbrzych. Łódź is a typical “great city” region, which demonstrates all the advantages of an urban agglomeration. It concentrates well educated labour force and scientific and academic institutions. It is centrally located in the country and its location advantages will even increase along with construction of the two highways, North-South and East-West. Privatisation processes are relatively fast and involveent of foreign capital visible. Services develop rapidly. However, the old dominant industry, that is now in a really difficult situation, is a heavy burden for this region. The massive unemployment, over representation of narrowly educated workers, and worn out urban infrastructure jeopardise the chances of this city for taking full advantages of its potentialities for transformation.

Wałbrzych is in a much more difficult position. This region has all the features of an old industrial regions and its does not have the potential of a big city. Its location is not advantageous. Having said that, one should not forget about the tourist potential concentrated in the southern part of the region, which may be a great opportunity for some communes and towns.

It is inevitable for the Wałbrzych region to go through a period of decline. With the exception of tourism, all other sectors do not demonstrate any potential for growth. Łódź seems to be in a better position, since the potential of this region may be well utilised. However, it is unlikely for the Łódź region to exceed the average national rate of growth, since the declining industries will be – for several years – a heavy burden for its economy.

- 3) Upper Silesia of which Katowice voivodship constitutes the main part and the major economic unit, traditionally providing more than 20 per cent of the national industrial production, is on the edge of massive restructuring and dramatic increase of unemployment. Coal-mining, the most important branch in the regional economy, will undergo deep structural changes. Heavy and chemical industries, which at the moment are in decline, are the other dominating sectors of Upper Silesia and will produce massive unemployment in the nearest future. For example, the programme of coal mining restructuring envisaged closing down of 14–17 coal mines and reduction of employment in this economic sector by 170,000 people. 5 steel mills in the region are to be closed in the same time-horizon, which will lead to dismissal of a further 30,000 workers. Further reductions of employment will take place in factories co-operating with those which are to be liquidated.

However, until now the true restructuring process seems to have not started yet in the region. Production of coal dropped by more than 30 per cent, while employment in this branch has declined by less than 15 per cent (together with energy production). Polish coal becomes more expensive than the coal on the world markets, but its production is still relatively high, though the deficit of the

coal mines grows by 50 million USD monthly. During the years 1990 and 1992 the overall industrial employment dropped by 45,000 people and in construction grew in the same period by 27,000. The more postponed the adjustment of employment in the region will be, the more massive reductions will have to be made and higher social costs will be paid.

The economic profile of Upper Silesia can no longer be maintained and possibilities of building new industrial structures even on the ruins of the old are vague. The environment is too heavily damaged, the labour force too mono-functional, and the infrastructure too obsolete, society too critical. In the meantime, the rate of unemployment in the Katowice and Bielsko-Biala voivodships is one of the lowest in Poland, which – as explained above – should not be the case in the future.

At the same time, both voivodships seem to benefit from the transformation processes. Upper Silesia is one of the leading regions in privatisation and inflow of foreign capital. In Bielsko-Biala voivodship the biggest foreign investment in Poland was located – FIAT with its up to 2 billion USD committed for next years. The situation of these two regions is therefore, to some extent, “broken”: they take advantage of relatively well developed infrastructure and the “big city” effects, and, at the same time, the shadow of industrial restructuring and its social costs may jeopardise – especially in the Katowice region – the course of transformation.

It is a paradoxical phenomenon that Polish political elites seem to try very hard to forget about Upper Silesia. The problems of restructuring the two other regions: of Łódź and Wałbrzych – do have much greater coverage in mass-media and do meet with greater attention of the government. Also the international organisations, like the EU, seem to avoid this difficult regional problem. For example the 60 million ECU STRUDER programme, devoted to regional restructuring in Poland, carefully omits Upper Silesia and concentrates its activities on Łódź, Wałbrzych, South-Eastern and North-Eastern parts of Poland. It was only the result of the Silesian strike in December 1992 when this region came to the fore – however, just for a while. The Silesian problem – especially difficult economically, socially and politically – is being pushed out of the consciousness of the decision-making centres. The consequences may be dramatic, since postponing any action – action which far exceeds present and future capabilities of Polish economy – aggravates the Silesian problem.

Upper Silesia will be the region in sharp recession for the coming years. Once the real restructuring starts, several leading industries will have to note deep decline of their output which would not be compensated by for the growth of progressive branches. The negative rate of growth seems to be the fate of this region for the next decade.

- 4) The central-western regions (Wielkopolska) and their extension to the North and to the South – i. e. the territories which constitute the “letter L” – are already now and will be in the future the greatest beneficiaries of the transformation processes, along with the big cities. These are the areas with diversified economic structure, rich endowment with infrastructure (which will be further enhanced by the North-South highway), well developed urban systems, high levels of agricultural productivity and advantageous location.

The entrepreneurial spirit and long traditions of good organisation are the main assets of the Wielkopolska region. By all standards, these areas will play a crucial role in Polish transformation as an immediate background to the leading cities.

The "letter L" areas of Poland will demonstrate growth similar to the national averages. Their non-agricultural sectors will display faster growth, however, the important position of agriculture in their economies will pull this rate down.

- 5) The North-Eastern part of Poland (voivodships: Olsztyn, Suwałki, Łomża, Ostrołęka, Ciechanów) is one of the regions, in which transformation may be postponed or may lead to prolonged recession. This is the region mostly endangered by structural unemployment. The non-agricultural sectors are poorly developed and employment opportunities besides agriculture are scarce. Agriculture itself is rather weak, poorly equipped with fixed capital and run by elderly farmers with low skills and little incentive. Though at present this agriculture may still survive, this region will be one of the first parts of Poland to undergo deep restructuring of this sector. Tourist services cannot develop properly due to general decrease of incomes and low demand for such services. The region does not create promising opportunities for potential foreign investors due to its remoteness and overall economic, social and cultural backwardness. Links with the eastern markets are poor and do not create hope for revitalising the local economy.

The north-eastern part of Poland may perhaps have a role to play on an international scale as one of the few in Europe reservoirs of unspoiled environment. Conflicts between tourist services and environmental functions are possible.

- 6) The South-Eastern part of Poland is a concentration of "company-towns" hosting declining branches, such as metallurgic, military, and transportation industries which are in a difficult economic situation. The collapse of the former Soviet market to which this region directed a great share of its industrial production has been one of the most important factors of present economic difficulties. This region has also had the concentration of the "bi-professionals" who combined their work in industry with running small agricultural farms. They were first to be dismissed from their industrial occupation, but the remaining source of maintenance – farm – is usually too small to provide sufficient incomes. The urban structure is relatively well developed but will have to undergo accelerated deterioration along with a worsening of the economic situation of the state industrial enterprises which used to construct and support the communal facilities. There are no other promising directions of development: agriculture is (traditionally) heavily overpopulated and tourist services underdeveloped. Trade with new eastern markets could be the direction of regional specialisation in the future, though it depends on developments in the post-Soviet republics.

Especially dramatic changes may occur in agriculture. For centuries this was the region with the smallest land holdings and, at the same time, relatively low agricultural culture. This will be the region in which the greatest numbers of people will be pushed out of agricultural jobs. However, due to relative backwardness, the local market for agricultural services may be limited and in this way these people will have great difficulties in finding non-agricultural

occupations in the rural areas. Rural unemployment may thus soar, adding to the already massive urban unemployment.

The very south-east corner of Poland may play a similar role as a reservoir of natural environment.

- 7) Northern and western Polish regions have a specific agricultural structure: the share of state and co-operative farms was the highest and reached, in some regions, over 50 per cent of agricultural land. These big farms collapsed and were made available for privatisation, which is slow due to lack of desire to buy land. Though unemployment created as the result of restructuring of this economic sector is not big in absolute numbers, it can strongly influence some local labour markets deprived of other employment opportunities. The already discussed prospects for internalisation of this region – especially of its western part – may solve some of these problems. However, the inflow of foreign (in fact German) capital will not create a sufficient number of jobs in the nearest future. The labour market will therefore be one of the most difficult problems for these territories for at least few years.

Tourist services will constitute an important developmental factor for the seaside. However, the benefits of this type of economic activity will be limited to the 5–10 km belt along the coast and the multiplier effects will not embrace the more distant hinterland.

All these last three groups of regions (points 5–7) will – in general – fall into the group of losers. Their rates of growth will be lower than the national average, though some particular regions may also reach higher dynamics of economic development.

- 8) Besides these more general regional patterns of Poland, there are several cases of micro-regions which will pose specific developmental problems. The mostly pronounced will be the restructuring processes of some raw-material extraction and processing centres, like copper mining basin in Legnica and Lubin (south-west), sulphur basin around Tarnobrzeg (south-east), brown coal mining and energy producing centres near Konin (central-west) and Turoszów (south-west corner) etc. These are the regions deeply endangered by low profitability of production (copper, sulphur) and by environmental hazards. Their production will have to decrease and this will lead to the emergence of very geographically concentrated social and economic depressions.

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Regional policies have been extremely weak during the transformation period (in fact, this statement could also refer to last twenty years, as well). Also the local government, reintroduced in Poland in 1990, have not been able to become a strong economic agent – though several positive effects of its functioning have already manifested themselves. Also, present territorial organisation of the Polish space is generally considered inadequate to the new economic and political conditions.

The regional (voivodship) unit is much too small for the new type of regional policy that should be designed and implemented by the central government. The Polish administrative regions of the first-order should be visible on the map of Europe and such units should be strong enough to conduct their own development policies and to be economically competitive, also in the international context.

The regional policies should be directed towards facilitating reforming the national economy. The principle of efficiency has come to be recognised and the possibility of assisting the strong regions (the "locomotives of progress and development") has been taken into consideration. Such an attitude of regional policy could be labelled as "prospective", i. e. focusing on the regions which could become the nuclei of modernisation and progress in a troubled economy under transition.

There is an urgent need for creating an integrated approach to the sectoral and regional aspects of the national economy. Traditionally, both systems (sectoral and territorial) used to be considered and "planned" separately, which left regional policies weak and ineffective, constantly losing to preferences of most powerful economic sectors and branches. If the Polish transformation is to be successful, this integration should become one of the main principles for any policies and actions undertaken on the Polish economic and social scenes. It has to become obvious to all decision-makers in this country, that no sectoral policy can be conducted without its regional aspects – and vice versa – any regional policy should be filled with concrete economic and social content.

The main focus should be laid on the crucial problems of particular regions, such as promotion of new technologies in the greatest scientific centres, creation of new employment in the lagging behind regions, re conversion of obsolete industries in the old industrial regions, etc. There should be no opposition between the efficiency orientation of regional policy and direct involvement in some regions. Several regions demonstrate high developmental potential which is deeply shadowed by the negative consequences of the general systemic change which took place in Poland. It may be easily argued that assisting these regions in their industrial and environmental re-conversion efforts may effectively stimulate their potential which now has been covered by the avalanche of collapsing industries, unemployment, social deprivation, and pollution.

The changes in the geography of Europe call for reformation of Polish strategic choices in regional policies. It could be supposed that renunciation of Germany puts Poland in a less competitive situation on the North-South axis, since more traffic in this direction would be going through the new German eastern Länder, already better incorporated into Western Europe than Poland. On the contrary, the potential role of Poland as the transitory area between West and the new East seems to grow. If these suppositions are correct, the regional policy should reorient itself according to these lines.

The "Euroregion" initiatives should be further stimulated and supported. These initiatives can become one of the best ways of opening the country to its neighbours and developing mutually beneficial trans-border co-operation. These initiatives should be, however, monitored by the government from the point of view of their role for the whole country. Monitoring should be strictly pragmatic and all ideological issues should be excluded for the overall evaluation of the already existing and emerging Euroregions with involvement of Polish regions.

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PART FIVE

**LOCAL GOVERNMENTS AND URBAN
POLICIES**

28 ARE LOCAL AUTONOMY AND REGIONAL SPATIAL MANAGEMENT COMPETIBLE? IMPLICATIONS OF NORTH AMERICA AND GERMANY EXPERIENCES IN METROPOLITAN PLANNING FOR HUNGARY

JAMES WESLEY SCOTT

Introduction

The socio-economic transformations taking place in Hungary, Poland and other Central and Eastern European countries have had a dramatic impact on regional planning and development policy there. As Central and Eastern Europe grapple with economic crises, budgetary constraints, political ambivalence and an understandable but often counterproductive popular aversion to urban and regional planning, new institutional frameworks must be defined for a genuine regionalisation of spatial and economic development policy.

With the introduction of parliamentary democracy and the dismantling of rigid centralist political administration and socialist economic planning, local governments have, at least theoretically, acquired the opportunity to guide development according to the needs and desires of the local citizenry. Unfortunately, this recently won political freedom appears not to have promoted a co-ordination of planning and economic development objectives at the regional level.

At the same time, regional planning and policy in Western Europe, North America and elsewhere has been undergoing considerable change. New paradigms of local initiative and endogenous growth as well as an emphasis on public-private planning co-operation are gradually replacing more interventionist approaches. This has forced theorists and practitioners alike to reassess the objectives and instruments of regional spatial and economic development. Furthermore, there are indications that a "convergence" of regional policies is taking place as different countries attempt to develop more flexible and decentralised planning solutions while maintaining some form of senior government control.

This paper attempts a brief description of how the problem of reconciling local government autonomy with metropolitan planning has been dealt with in the (relatively) decentralised, federalist states of the US, Canada and Germany and how ongoing debate on the future of regional policy has affected developments there. It is suggested that the experiences of these three countries may help Hungary and other former COMECON-states in their own search for a new process of regional

governance, planning and development. In comparing these three spatial management models, possible implications for regional planning in Hungary will be discussed. Because of its flexibility and relative effectiveness, it is suggested that the "Canadian alternative" may provide indications as to how future regional policy might be developed.

Hungarian transformation and the regional policy vacuum

Insecurity and a constant state of change characterise post communism in Hungary, Poland and other former COMECON states, in the words of *Bunce-Csanádi* (1993).

Post communism's basic structure is characterised by a lack of structure. Post communism is neither a system, a bundle of institutions, nor a culture. As are all systems in a state of flux, it is process of systemic development.

Symptomatic of this "fluid" transition is the fact that while centralism and the institutions of state socialism have been repudiated, the institutions of post communism are not yet strong or visible enough to assume a socially cohesive role. The principle of self-government, suppressed during 40 years of state socialism, was formally adopted by the Hungarian Parliament in 1990 as a basic element of a civil society and participatory democracy. Unfortunately, Hungarian local governments have failed to promote local interests and to involve the citizenry in the decision-making process. Here, the lack of cohesion between local organs and the populace, and the abhorrence of open debate political debate inherited from the socialist era make their mark (*Pálné*, 1992a). Furthermore, as *Hajdú* (1993) notes, the "absolutisation" of local self-government has been accompanied by a clear loss of regional administrative structure and has resulted in the de-emphasis and de-prioritisation of regional interests and the concept of regionalism.

Among the more important tasks local governments are required to perform is urban development and land use planning. The county level, an administrative appendage of central government during state socialism, has been stripped of much of its authority. In the words of *Csefkó* (1992), it is a "floating" institution whose future role in urban and regional development remains highly uncertain. The result is a regional policy vacuum characterised by a multitude of sovereign but weak local governments and a very weak intermediate level. Compounding this problem is the fact that no national regional plan or policy exists that might provide guidelines for action (*Erdősi*, 1993). The lack of strong counties or similar regional bodies is a feature of policy uncertainty and underlines the ambiguity of Budapest's role in defining regional policy.

Pálné (1992a) remarks that a firm decentralisation has occurred in the regional decision-making mechanism. The aims of it are to be welcomed even if they are not unambiguously rational in regard to reality. But other tendencies in state institution-building give the problem quite different dimensions. Pushing counties into the background and into uncertainty is much more the instrument and the proof of an etatist and centralising tendency than that of liberation of settlements' local government from county oppression.

This leaves then the vital question of how Hungary should redefine the roles of local, regional and central government in order to promote flexible regional planning and development policies responsive to the manifold problems caused by economic transformation and national integration into the global economy. While Hungary's present condition is one of uncertainty and flux, these first years of post communism

represent a unique opportunity for citizens and local communities to influence legislation and the development of public policy and intergovernmental relations.

Regional policy at the cross-roads: post-modernist critique, neo-conservative retrenchment

Recent debate over regional planning has been characterised by a marked paradigm shift. It is a reflection of increasing criticism as to the way public policy at the national level has addressed urban and regional issues. Generally speaking, policies generated from the "top down" and based on an a priori application of spatial and economic theories have not eliminated regional disparities, solved the crisis of the central cities, or dealt successfully with decentralisation. They have thus fallen into disrepute. In contrast, regional planning concepts that emphasise the role of local governments, local initiative, public-private partnerships and a more effective use of local resources appear to be gaining broad acceptance. Many of these new regional planning concepts can be said to be products of a post-modern zeitgeist that challenges Fordist, Taylorist and other quintessentially modernist principles of economic development. *Faragó* (1991), writes:

"Modernist regional development policy is based on the relatively uniform and successful model of early industrialisation and urbanisation. Development is identified with quantitative growth. Local resources are evaluated according to universal, external criteria that often result in ruthless exploitation or under-utilisation (whereas) the practise of regional development is realised through large, vertically organised institutions....(post-modernist) policies recommend local and regional development that basically mobilises the regions' internal resources and gives preference to the regional integrity and self-management of local complex systems."

The post modernist development paradigm thus contains many progressive elements. It emphasises, for example, sustainable development (or eco-development), environmental protection and a global rather than a national outlook on development and other economic issues. It also champions empowering communities and regions in order that they may take greater control of their own destinies, enabling them to compete more effectively in a global economy while defying unwelcome social and economic "megatrends".

The post modernist paradigm must, however, also be viewed within the context of more conservative political trends that have greatly effected industrialised societies. The 1980s popularised so-called neo-conservative and post-Keynesian ideologies that eschewed government intervention in economic life, emphasised privatisation and accelerated fiscal retrenchment in the area of social welfare as well as the abandonment of redistributive urban and regional policies.¹

Arguably, one policy element that both post modernism and neo-conservatism tend to emphasise is the issue of local initiative. Local needs, interests, and development concerns are perhaps most clearly articulated at the municipal level. However, the local planning role in neo-conservative thinking involves boosterism and the aggressive marketing of urban space.² Unbalanced local control of planning can often produce outcomes counterproductive to sound regional development and that contradict the more progressive – most notably environmentalist – tenets of post modernism. *Warf* and *Gaffkin* (1993) have commented that:

Broadly speaking, the post-Keynesian state has largely disassociated itself from explicit urban policy-making (and) has heralded the withdrawal of government funding from many urban areas. In particular, it has led to a broad-based shift in the priorities of local governments, which are increasingly less concerned with issues of social redistribution, compensation for negative externalities, provision of public services and so forth, and more enthralled by questions of economic competitiveness, attracting investment capital and the production of a favourable business climate. Thus, long-term capital budgeting, master planning and a concern with the environment have gradually given way to short-term concerns of job generation, looser regulations and tax relief. Planning is hence concerned more with promoting development and less with regulating its aftermath.

In effect, the decentralisation of regional policy and spatial planning as well as the empowering of local communities to develop "endogenously" must be counterbalanced by a regional "control mechanism". Inter municipal competition (e.g. between suburbs and central cities) is always a crucial factor in the spatial management of cities and regions. Local patriotism thrives in an atmosphere of entrepreneurial urban growth and can always return if inter-jurisdictional planning controls are eased, transfer payments restricted and/or reduced, or if political guidelines change.

Regional spatial management: A critical examination of German, Canadian and American experiences

The capacity of regional planning to influence spatial development is only as strong as regional consensus to accept certain development goals and/or as the authority vested in it by senior governments. From the standpoint of regional planning – and by this we mean any form of planning that transcends the jurisdictional boundaries of an individual community – the existence of a multitude of governments and authorities of varying size and decision-making competence presents a problem. Linkages between regional, national and international economies, and in the labour, energy and resource base, form an inter connective network overlain by a fragmented jurisdictional map. The allocation of economic resources and the setting of planning priorities is thus divided among various levels of government, all of which contend for popular legitimacy and are jealous of their decision-making prerogatives. The goal of efficiency and autocracy in planning process clashes head-on with the political ideals of personal freedom and local autonomy.

Looking back on developments of the last 40 years, we can say that two basic options have existed for the development of regional planning and the institutionalisation of regional co-operation. The first of these has been volunteerism, an arrangement within which communities work together more or less as equals to solve common problems, oftentimes delegating certain responsibilities to special urban service bodies (or special districts) but always maintaining ultimate sovereignty over developments in their jurisdictions. The second option has involved the imposition of metropolitan and/or regional government either through direct consolidation of communities by annexation or by senior government establishment and empowerment of regional bodies (*Scott, 1991*).

In the three cases that will be discussed here, those of Canada, Germany and the United States, regional planning regimes have evolved that reflect the values, myths,

political cultures and traditions of each of these countries. Similarly, in all three cases, increasing concern over negative externalities of municipal-level planning (e.g. environment, traffic, industrial development and the social costs of urban expansion) as well as a failure to achieve basic regional policy goals have led to a critical reassessment of received regional planning practise.

The United States: reconciling regional concerns with local interests

Writing in 1960, *Stanley Scott* commented on the absence of a "process of government" in the United States to deal with urban issues on a regional scale. *Scott* also criticised the fact that most administrative functions, such as transportation planning, park maintenance, law enforcement, water supply and treatment, and housing, were still divided up among a multitude of municipal governments or, at best, were performed by single-purpose agencies. At that time, several urban regions of the U.S. were considering the creation of Councils of Local Government (COGs) to serve as regional development forums and planning bodies. Conceived as voluntary associations of regional communities, they were intended to promote inter-local co-operation and a regional outlook on urban affairs.

This form of voluntary intergovernmental co-operation, which has become the principal regional planning instrument in use in the U.S., has theoretically provided a vehicle for more comprehensive metropolitan area problem solving. Due to the separation of powers inherent in the U.S. system, and a deep-seated respect of local autonomy, municipalities have considerable access to the state and federal levels. Lobbies and interest groups representing local governments thus maintain a certain leverage influence over policy decisions (*Jones, 1988*). Regional volunteerism presupposes that communities take full advantage of their political clout and that federal and state governments assume certain administrative and financial responsibilities to support regional planning and service delivery. Unfortunately, this has not been the case. Fiscal retrenchment and a gradual rollback of federal programmes since 1968, and particularly under Reagan's and Bush's New Federalist regimes, have reduced incentives for communities to co-operate in regional problem-solving.³ Instead of direct aid, the federal government has (wittingly or unwittingly) promoted inter-municipal competition via support of urban entrepreneurship and inner-city "enterprise zones" (*Peterson-Lewis, 1986*).

The states have appeared unwilling to fill the policy void left by federal retrenchment, nor have they been provided with additional funds for urban programmes. This policy vacuum is exacerbated by a lack of revenue-sharing and inter municipal service equalisation schemes. Communities remain heavily dependent on property and sales taxes and hence on their ability to attract revenue-generating uses.

The success of metropolitan administration and planning in the United States has thus been overwhelmingly dependent on a local willingness to co-operate and on the existence of a general consensus as to what development goals should be aimed for. Sadly, the record clearly shows that volunteerism has not stopped sprawl, jobs-housing imbalances or reduced inter-municipal disparities in the quality and quantity of urban services and amenities. Inner city policies concentrate on aggressive renewal and commercial redevelopment. The urbanising periphery, seeking to expand its tax base, generally continues to realise its market potential as provider of new land for

industrial, commercial, and residential development. Mature, affluent suburbs struggle to attract "quality" development and limit the extent of future growth.

This pattern of regional "Balkanisation" and inter-municipal competition is most likely to be broken by the problems of urban development itself. Environmental degradation, long commutes, and the loss of open space have become highly political issues in many urban areas. In fact indications are mounting that pressure for action resulting from sprawl, congestion, and a perceptible loss in the regional quality of life will perhaps force municipalities to co-operate on a scale never before attempted. Regionalist action is gradually materialising in the form of negotiated inter-local agreements based on compromises between developers, municipal officials, citizens, COGs and citizen groups. So-called multiple advocacy approaches to regional planning have shown promise in California.⁴ Based on his observations on new regional co-operation in the San Francisco Bay Area and elsewhere, *Rothblatt* (1993) notes that, in the United States there appears to be a growing tendency for public and private interests to collaborate on solving pressing metropolitan problems of great mutual concern. In what maybe a new form of American regional corporatism, the major private sector organisations appear to have become more "public-like" public institutions seem to have become privatised – behaving more like firms than public agencies.

Even the states appear to be re-evaluating their regional planning role and, in the cases of Florida, Maine and Vermont, have recently passed legislation mandating inter municipal planning co-ordination. The supervisory role of the states will be of increasing importance and may well determine whether or not new public-private planning initiatives are mere manifestations of short-term crisis management or whether they will develop into a process of regional governance embracing revenue distribution, comprehensive transit and open space policies and a semblance of long-term land-use planning.

Germany: central place ideology in the firing line

In the case of West Germany, local autonomy has not presented an appreciable barrier to metropolitan governance, nor to state and federal intervention in urban affairs. Despite constitutional guarantees of local self-government, German municipalities are clearly subordinate to state governments, who are legally required to supervise municipal affairs and who draw up and approve city charters. Under federal law, the States (*Länder*) are responsible for drawing up their own regional development plans. These state-level regional plans are based on the Federal Planning Act (*Bundesraumordnungsgesetz* or BROG) of 1965 that translates the constitutionally defined goal of "social equality" into spatial equality.

The primary goal of spatial equality is broken down by the BROG into various secondary goals such as 1) the maintenance of balanced socio-economic and cultural relationships, 2) the concentration of housing and employment, 3) the protection and development of healthy living conditions within urban areas, 4) the care and protection of the natural environment and landscapes and 5) the protection of agriculture and forestry and the limitation of rural out migration. States' plans (*Landesentwicklungspläne*) translate broad planning concepts into more narrowly defined action programmes. Comprehensive regional planning in Germany has been achieved through

the use of specific development criteria. Under these criteria, construction is regulated by growth quotas and a differentiated treatment of municipalities, based on future development potential, relative location, and the local needs of the population. Two of the most important planning instruments involve a hierarchisation of municipalities according to size and regional importance and according to relative location along designated axes of future growth.

The concept of central places, borrowed from *Walter Christaller*, was introduced to facilitate an optimal spatial distribution of population, employment and urban services. Central place designations were standardised for the entire Federal Republic in 1968 by the Standing Conference of Ministers responsible for Urban and Regional Planning defining municipalities as either high-level centres, intermediate-level centres, lower-level, and small centres (*Kistenmacher*, 1982). The central place hierarchy is intended to help state governments meet anticipated urban service demands based on potential growth and maximum allowable "commute times" between the various urban centres. In addition, a complex catalogue of minimum services has been developed to guide capital investments and administrative decisions regarding urban infrastructure in the different centres.

The concept of central places is one of the few examples of regional science research that has been incorporated into public policy. The reason for this, logically enough, is its political attractiveness. Not only does central-place theory allow public officials to define administrative boundaries but it rationalises the hierarchisation of the settlement system based on population, thus bestowing designated central places with prestige and power. The central places concept was born during the phase of "Fordist" development and carries all the attributes of a modernist development paradigm. It is oriented towards economies of scale, promotes functional specialisation and, crucially, spatial concentration. This is due to the fact that central places theory presupposes a dominating influence of transport costs. Accordingly, central places are accorded a space in the urban system hierarchy according to the size of their "catchment areas" for goods and services.

Perhaps the most important effect of central place ideology on German planning has been the perseverance of an urban centrality maxim. Indeed the enabling and/or outright imposition of regional government by the German states appears to have strengthened the hand of central cities. This has helped prevent urban decay and stem sprawl resulting from decentralisation tendencies. In several cases, such as that of Munich, the central city has clearly used regional government – and the support of the state government – to manipulate peripheral urban development in its own interests (*Scott*, 1992). In general there appears to exist a general consensus that regional governance benefits both central city and suburbs and that regional well-being cannot be defined solely in terms of the fortunes of individual communities.

However, the downside of central place oriented spatial planning is its lack of flexibility and the fact that it has not achieved the basic regional development goals defined by federal and states policies. The concentration of public investment in central places and the orientation of public transportation towards larger communities is a supply-side policy that favours the interests of producers over those of consumers in the name of economic rationality (*Stiens*, 1983). The socio-economically determined ability and willingness of consumers to travel to centres of goods and services is thus

ignored. One drastic and costly effect of this policy has been the generation of overcapacities in the social infrastructure of central places (e.g. schools, hospitals, administration) at the expense of smaller communities. As a result, regional disparities have increased as central places, attracting population and businesses from peripheral areas, have rapidly outpaced development elsewhere.

Additionally, the central place concept in its present form cannot be adapted to changing economic realities (flexible work hours, just-in-time mode of production), to local development aspirations (regional participation, endogenous growth, adaptation of local infrastructure to changing local needs) or to changes in European regional policy.

New concepts and instruments are thus necessary in order to adapt German regional policy to changing circumstances. *Winkel* (1993) recommends that in future, a) regional needs be determined in consideration of the time and mobility constraints of different socio-economic groups, b) the centralised and radial hierarchy of service delivery be decentralised and "branched" and c) the multi-purpose use of social infrastructure facilities be integrated into infrastructural planning, particularly for rural and other peripheral areas. However, in order to implement these and other policy innovations, the actual planning process has to be modified. Most importantly, greater co-operation between central places and their "zones of attraction" is required. Up to now, senior governments (the states, their administrative appendages, the "Regierungsbezirke", and regional planning bodies) have been primarily responsible for inter jurisdictional planning co-ordination. This planning constellation allows central places almost absolute freedom in determining the quantity and quality of capital investments in infrastructure without providing incentives for inter municipal task-sharing.

Legal restrictions are also a problem. Generally, German planning law only allows rezoning to increase available industrial space in designated central places. Furthermore, the federal tax code, while providing for revenue equalisation expressly forbids inter jurisdictional revenue-sharing. Central places, increasingly zones of commerce, services and residential space, often lack sufficient land for additional industrial use. Ideally, central places and outlying "lower level" communities willing to accommodate industrial space could co-operate on infrastructure, site development and marketing strategies (*Winkel*, 1993). A step in the direction of greater inter communal planning and development co-operation are the so-called Urban Networks established by the cities of Nürnberg, Fürth and Erlangen in Bavaria and the cities of Wuppertal, Remscheid and Solingen in Northrhine-Westphalia (*Grymer*, 1991). With time, debate and political pressure may very well bring about a planning process that is not only more flexible but that also works from the "top down" and the "bottom up" – involving closer co-operation and compromise between local, regional and state governments.

The Canadian alternative: provinces as regional policy mediators

Unlike the United States, Canada has instituted regional planning and a process of metropolitan governance. Unlike Germany, it has had to design its regional planning regimes around the political realities of local autonomy and frequent mistrust of regional planning. Metropolitan governance was by no means met with popular

acclaim; suburban communities feared domination by central cities and a loss of neighbourhood identity.

Canada's provinces are powerful. Whereas the federal government impacts on local government in housing, transportation and other areas, municipal affairs and planning supervision are the sole responsibility of provincial governments. The realisation that the complexities of urban management could not be addressed without multiple-function metropolitan administration led to successive the imposition of regional governance in Canada after 1950 (*Hodge*, 1986).

Provincial governments, however, have generally refrained from endowing regional governance with permanent and broadly defined police powers. More often than not, regional planning has been engineered through compromise between developers, local and metropolitan governments and with the supervision and co-ordination of provincial agencies. The flux inherent in provincial regional planning policy can be explained by provincial sensitivity to local opinion, and a concern with local autonomy that has tempered regional planning intervention. Nevertheless, respect of local autonomy has not prevented the provinces in taking the initiative in such areas as urban transit, housing programmes, and redevelopment. The federal government, owner – among other things – of ports and railway lands, has also played a crucial role in the redevelopment of cities and in dynamic central city economies (e.g. Toronto's Harbour front and Vancouver's False Creek areas). Perhaps more importantly though, per capita fiscal equalisation schemes have succeeded in establishing general uniform levels of services within provincial jurisdictions and thus diminished inter municipal competition. Revenue-sharing is not merely federal and provincial policy, it is mandated by the constitution (*Sancton*, 1993).

Indeed, one could reasonably argue that metropolitan problem-solving forums with recognised authority coupled with provincial action and federal support have played a vital role in shaping recent growth in Canada's major urban areas and in helping maintain vigorous central cities. In the Greater Vancouver Area, consensus among regional municipalities, combined with the zoning powers initially vested in the Greater Vancouver Regional District (but since revoked), helped create a political atmosphere conducive to the realisation of many long-term development objectives set down in the GVRD's Livable Region Strategy (GVRD 1975). Among these planning objectives are 1) the promotion of Regional Town Centres to decentralise employment opportunities within the region, 2) the regulation of future development in order to protect open space and to provide for parks and recreation areas, 3) the pursuit of a strategic transport planning approach in which transit axes and nodes would positively influence new development, 4) an even distribution of the burdens and benefits of growth among regional municipalities, and 5) ensuring a wide variety of housing types and tenures in order to meet different housing needs. The Town Centres policy appears to have worked particularly well, supported by the SkyTrain interurban rail system and municipal zoning policies that promote "densification" near rapid transit stations. Sprawl has also been limited thanks to provincial intervention and the establishment of Agricultural Land Reserves (*Miller*, 1989).

Decentralised concentration strategies appear also to have worked relatively well in Metropolitan Toronto. Consensus among Area Municipalities allowed Metro planners to pursue a sub centres policy promoting commercial, office space and high-density development near subway and bus nodes. At the same time, peripheral land within

Metro Toronto's jurisdictions has been subject to considerable zoning restrictions, limiting the conversion of open space for development. Similar trends appear to be materialising in Calgary and Edmonton, although the degree to which "urban containment" has been achieved in these cities is open to some debate. It is interesting to note that despite Alberta's generally conservative political traditions, the province approved large-scale municipal reorganisations through annexation in the urban centres of Edmonton and Calgary and has committed itself to the construction of costly rapid transit systems which today serve both these cities (Thomas, 1993).

Despite this positive assessment of metropolitan Canada, a variety of factors have impeded the development of planning mechanisms of European-style comprehensiveness. Decentralisation and suburban growth could be outpacing the ability of Canadian provinces to maintain managing regional development as they have in the past. Metropolitan regions are expanding beyond the boundaries of present regional planning and tax equalisation districts (Frisken, 1986). At the same time, Canada's provinces appear increasingly reluctant – either out of ideological beliefs or fear of negative voter response to extend the powers of regional planning authorities or to enact appropriate legislation allowing for sweeping controls on peripheral land conversion.

This does not mean, however, that regional planning in Canada is doomed. British Columbia's "Neo-conservative" Social Credit Party acted in 1983 to relieve regional districts of their direct planning powers over a dispute resulting from the GVRD's restrictive management of peripheral open space (Agricultural Land Reserves). Despite this decision, the GVRD was able to persuade local governments not to allow construction on Land Reserves without careful consideration of the environmental and sprawl effects of intensive development (Smith-Oberlander, 1993). In fact, a compromise solution was forged between the GVRD and the respective communities that allowed most of the lands targeted for development to be kept as open space. Thus, while there is no guarantee that future sprawl will be avoided under the present circumstances, a precedent for regional co-operation has been established that appears to be accepted by most communities in the region.

Future growth in Toronto's greater metropolitan region is also an area of concern. Although development within the core area has been relatively well regulated through the efforts of Metro Toronto, the provincial government has abandoned efforts to create a larger regional planning body covering fringe areas. Metro Toronto's planning area was, in fact, reduced in the early 1970s by legislation that created a multitude of regional districts, considerably fragmenting attempts at creating a Toronto-Centred-Region. In turn, however, the Province of Ontario's 1983 Planning Act established a framework for relatively unbureaucratic but decisive regional planning based on a greater degree of local-provincial co-operation (Wronski-Turnbull, 1984).

The 1983 Act removed, for example, the requirement of direct provincial approval of zoning decisions, leaving this instead to the discretion of regional councils. At the same time, it defined specific planning issues as matters of provincial interest including environmental protection, the avoidance of an inequitable distribution of key urban services, public health and safety, and the maintenance of financially sound government. The planning principle favoured by Ontario may be therefore characterised as an enhancement of local responsibility in planning and the maintenance of

provincial discretion in matters of overriding, regional importance. Characteristic of this more flexible planning regime is Ontario's Greater Toronto Area strategy, which is based less on direct control of the planning process and more on mediation and co-ordination between increasingly diverse communities and interests. The goal is long-term co-operation between provincial, regional and local bodies in determining the future of Greater Toronto. *Frisken* (1993) writes: "While regional planning has been treated as an important, even essential, element of government activity in the Toronto area for nearly 50 years, it has worked most successfully as a means of formulating general planning principles that show how private interests and local governments can reconcile their development aspirations with other community objectives. It has had limited effectiveness as a device for formulating comprehensive land-use frameworks to which public and private interests are willing to conform."

Refocusing regional spatial management: implications for Hungary

Traditionally, there have been great variations in the degree to which senior governments in Canada, the United States, and West Germany intervene in local planning matters to promote a "regional" well-being. However, these brief case studies also demonstrate that the regional planning process is under review. There appears to be a universal desire to correct past shortcomings and to respond to decentralisation trends and an enhanced awareness of both local identity and regional and global interdependence. *Rothblatt* (1993) argues that a "convergence" of sorts has been taking place in the evolution of regional spatial management approaches. Based on a synthesis of the above observations we can submit that future regional planning mechanisms will increasingly involve the following:

- 1) the adoption of a flexible institutional arrangement for creating a regional consensus on future development goals; this requires the participation of public, private and non-profit organisations;
- 2) the involvement of the next higher level of government (counties, province or states) to provide legal frameworks, the co-ordination of administrative guidelines and funds for establishing and/or maintaining a regime of regional planning control;
- 3) the investiture of regional control bodies with the resources, means and incentives to implement regionally approved plans;
- 4) the institutionalisation of revenue sharing and fiscal equalisation in order to limit inter municipal competition and service inequities which promote decentralisation in the first place.

While falling short of an ideal solution to regional problems, we argue that Canadian provinces have developed planning regimes based on the interplay of different levels of government and that have maintained well-functioning and livable urban regions. Recent innovations in Canadian regional planning are expanding the role of local governments and regional districts allowing greater freedom of movement and responsibility but maintaining the mediating and, if necessary, interventionist role of provincial government. These evolving planning regimes are inherently flexible – a rejection of planning that takes a "freeze frame" view of the future – and thrive on debate, conflict and, ultimately, compromise.

The situation facing central and eastern European countries, characterised by uncertainty, apathy and a lack of institutions enjoying broad popular acceptance, makes comparisons with other countries – particularly the “western” industrialised nations – difficult. We must therefore exercise caution in applying western European and north American experiences in regional policy to Hungarian reality. Hungary, as well as other central and east European countries, is in the process of redefining the goals and guidelines of regional planning. Barring the imposition of a Neo-conservative “laissez-faire” planning ideology, the present regional policy vacuum can either be filled by a centralist and paternalist approach or one which establishes a new intergovernmental partnership operating from the “top down” and the “bottom up”.

The centralist option has been firmly rejected by Hungarian experts, who generally favour innovation-oriented, and locally and regionally driven development policies (Pálné, 1992b). Horváth (1992) has commented that the most important immediate task facing regional development in Hungary is the nurturing of administrative, promotional and financial institutions at the sub national level. However, Horváth (1992) does not suggest the communities and regions go it alone. On the contrary, the institutional and financial framework of spatial development policy must first and foremost be designed (to promote) the institutionalisation of local and senior government partnerships. Spatial development is the mutual task of local and senior governments, whereby areas of competence must be clearly distinguished and the guidelines of co-operation precisely defined.

Notes

¹ Nowhere did neo-conservative policies have such profound affects as in the Anglo-Saxon economies and nowhere was the retreat of central government from the public policy arena so dramatic (drastic) as in the United States. Decentralisation was not pursued as such by Thatcherite neo-conservatives. Instead, it was implied by the diminution of the government's role in the economy and society and the promotion of a moral code of initiative and hard work. In the UK, neo-conservative ideology also supported the establishment of public-private local development corporations in order to promote an entrepreneurial type of urban redevelopment and regional growth. In the US, urban and regional programmes at the federal level were eliminated altogether. Urban and regional policy-making responsibilities were “decentralised” to the states and local governments without, however, providing for additional funds to support this transferral of administrative duties. With respect to Canada, direct federal involvement in urban and regional planning issues also reduced, but as Sancton (1993) points out, for quite different reasons. In the U. S., more conservative federal administrations blocked the flow of conditional federal funds in order to reduce public expenditures on redistributive programmes. “In Canada, opposition to federal involvement, led mainly by Quebec, came from the provinces. They preferred to control urban policy themselves (Sancton, 1993).”

² This concept is notnew. In his seminal work on municipal economies, Tiebout [“A Pure Theory of Local Expenditures”, *Journal of Political Economy* (64) 1956] likened communities to producers of local services and goods who offer their products (education, housing) to consumers, themselves in the market for a “bundle of service” that best suits their individual needs. This theory assumes that a maximum of decision-making freedom or “public choice” can be guaranteed through the pursuit of self-interest on the part of producers (towns) and consumers (home-seekers). Local autonomy thus engenders a healthy competition between producers and maximises benefits for all.

- ³ The term New Federalism originated during *Richard Nixon's* presidency and expressed conservative attempts to "decentralise" urban policy and thereby neutralise Democratic power bases in the inner cities.
- ⁴ These efforts are largely local initiatives, spearheaded by "citizens lobbies", such as various environmental groups, and/or voluntary commissions made up of public officials and private citizens. Members of the business community has also been active in publicising regional issues and supporting greater planning co-operation. The Bay Area Council, represented by almost 300 corporations, supports the philosophy that comprehensive land-use planning and housing policies are in the self-interest of private enterprise as they can help maintain a well-functioning and attractive economic environment. In Santa Clara County (the home of Silicon Valley), major manufacturers have formed a task force dealing with transportation, housing, and other regional problems. In addition to the activities of non-governmental groups, it appears that inter-local co-operation based on negotiation may promote area-wide planning in rapidly growing parts of the Bay Area. Another regionalist perspective has materialised in the form of negotiated inter-local agreements based on compromise between developers, municipal officials, citizens, regional, and, if necessary, senior governments. *Don Rothblatt* has cited the relatively successful attempt of Silicon Valley business interests (represented by the Santa Clara County Manufacturing Group) in persuading municipalities to address the jobs/housing imbalance. ABAG, the regional COG and another regional agency, the Metropolitan Transportation Commission, have also demonstrated an ability to reconcile contending interests in Santa Clara County. The approval of a light rail system centred on San Jose's downtown as well as inter municipal agreement on other transit improvements was engineered by these two bodies. Such strategic negotiation based on public-private partnerships and compromise would seem to function well within the fragmented U.S.-American metropolis.

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29 THE TRANSITION TO MARKET ECONOMIES AND MARKETING CITIES

GREGORY J. ASHWORTH

The transition to market economies and marketing cities

The last decade of the 20th century is presenting a unique economic, social and political challenge to the cities of the world as they attempt to adapt to the new conditions and take advantage of the new opportunities that are being presented. The Europe of competing nations is being replaced by a Europe of competing cities. The increasing globalisation, of trade, investment and labour markets is removing many of the protective barriers while increasingly effective transport and communication reduces the frictions of distance. Competition between cities is increasingly freer but fiercer. One aspect of this competition is the image of places held by potential or actual residents, investors or visitors and one instrument of public place management authorities is the creation or manipulation of such images. This could be dismissed as conventional wisdom that needs no reiteration by urban managers in most cities in Western Europe in the last decade of the twentieth century: it would however have been regarded as heresy in the cities of Central and Eastern Europe until two years ago.

This paper originates in a study (*Kozma-Ashworth, 1993*) that was comparative in both a particular and more general sense. It is a "tale of two cities" comparing existing and projected images of Groningen (Netherlands) and Debrecen (Hungary) and the goals and nature of the organisations projecting them. More generally however it is a comparison of two economic and political systems, or more optimistically, of two stages in the development of a single system.

The idea of selling cities

The idea of selling places as if they were marketable commodities received growing attention by public authority planners in the 1980s and became an accepted function of public authority place management (*Ashworth-Voogd, 1988*). In practice this has been conducted mainly by means of promotion (i. e. the shaping of a favourable place image among actual or potential users, treated as customers and transmitting this image efficiently to them). Many if not most authorities attempted to promote their town in its most advantageous light, to dispel prejudicial ideas about it and implicitly to cast doubts on the claim of competitors (*Burgess, 1982*). The explanation of the development of this activity by public authorities is complex but can be related to two main factors, the one economic and the other philosophical, explored at greater length in *Ashworth-Voogd (1990a)*.

On the one hand the changing economic and political climate in many Western European countries put local authorities in a situation of coping with new sets of goals and expectations. These were in part a result of increasing competition between locations, decreased financial resources and a decreasing confidence in the effectiveness of the traditional approaches of land-use planning. It became apparent that the passive function of public service provision in reaction to perceived needs was inadequate and that they needed to play a more active initiating role in the development process. Controlling development was no longer enough: local authorities had to initiate it. A market-oriented approach to urban development was therefore attractive. The most obvious symptom of this was the popularity of city marketing, simply described as the way cities can improve their competitive position in markets. The aim is to create as close as possible contact between the urban activities and the demands of targeted customers in order to maximise the efficient social and economic functioning of the area according to the goals of the instituting authority. One part of this broader marketing activity is promotion.

For these reasons local authorities started to pay more attention to creating attractive images. This seemingly simple shift in attention was complicated by two inadequacies. First the methods developed in traditional marketing science for the selling of goods and services by commercial firms was unsuitable for the selling of places which required a more complicated form of management. Secondly public authorities often had neither the expertise nor suitable operating structures for adopting marketing approaches.

From marketing to place marketing

There are some significant differences between city-marketing and the marketing of most other commodities which relate to the product being marketed: the place-product differs quite simply from the goods and services for which marketing science was developed. On the one hand in the case of places the same physical space must be sold simultaneously to quite different customer for quite different purposes (*Ashworth-Voogd*, 1988). On the other hand the place is an aggregate of public and private goods. The place product aggregates various mixes of these elements which although logically producing a range of quite different products nevertheless all occupy the same physical space.

There are other differences that relate to the selling process itself. The selling of the city can be distinguished from the simple commercial market transaction where a product or a service is exchanged for a price. It does not involve either the exchange between seller and buyer of ownership nor even, on most occasions the purchase or hire of any exclusive rights of use. The simple point is that place marketing is a distinct sort of marketing, requiring a distinctive set of techniques of which place promotion is one.

The protection of place-images within place marketing

If an important if not decisive role in the whole marketing process is played by the manipulation of place images, then the nature of these images and the more exact nature of this role, must be investigated.

The place image

Places are aggregates of many different facilities and characteristics and thus it is impossible for either buyer or seller to be aware of all but a fraction of these (*Ashworth-Voogd, 1990b*). Places can only be sold through a rigorous selection of its features in a place-image. Accordingly the place-image is composed of "an individual's beliefs, impressions, ideas and evaluations of different parts of the country" (*Burgess, 1982*). It is the learned and stable mental conceptions that summarise an individuals' environmental knowledge, evaluation and preference.

The factors influencing the formation of place-images can be aggregated into two main groups:

- 1) Factors relating to the individual's mental constructs, such as, socio-economic and psychological characteristics and previous life experiences;
- 2) Factors originating elsewhere such as intended promotion together with other sources contributing to unintended images.

Previous experience exerts a major impact on place-images. Almost all users of places have an enormous existing store of information, feelings and expectations whether they have physically visited the place or not. Consequently image promotion is very rarely the creation of a new image (*Ashworth-Voogd, 1990a*) and most conscious promotion operates upon an existing information set, attempting to reinforce the favourable images already in the mind of the potential users and endeavouring to challenge and expunge the negative or contradictory impressions. Awareness of the nature and strength of pre-existing images is thus critical.

On the supply side the projected image can be considered in two parts: the intentional image i. e. promotional activity and the unintentional image i. e. information from other sources. The second is almost always the more important both quantitatively and in terms of its effect on behaviour. The latter means that potential users are receiving information, beside conscious goal directed advertising, continuously from a wide variety of other sources. It is in practice important to stress that local authorities can usually do little to influence directly this unintentional image and their activities therefore focus on the intentional image.

The intentional image

In promotion local authorities have to cope with the important question, "how can the negative prejudice towards the place be overcome?" or, in the case of positive previous experience, "how it can be exploited and reinforced?" In the first case people need a good reason to discount their prejudice and it is generally insufficient only to contradict their image. The agencies have to operate with care because the promotional campaign reflects not only the character of the place itself but also the nature of its promoters. A well written and well presented publication creates an impression that the producers of it are responsible and organised but the chaotic or scrappy leaflets raise doubts about the efficiency their organisation (*Burgess, 1982*). The medium is, in a real sense, an important part of the message.

The content of promoted messages

In selecting the content of messages for promotion the agencies have to answer several questions. These include the information/persuasion dilemma (i. e. the decision to

either publish a useful list of attributes and services in the belief that some may be important or to use eye-catching coloured brochures and arresting language endeavouring to catch attention rather than inform). There is also the choice between the "strength" and "weakness" strategies (i. e. stressing the already accepted attractive features or endeavouring to counter the existing negative elements in the image). These and more, such as the choice between advertising the general or specific characteristics of the place, are discussed at length in *Ashworth-Voogd* (1990a).

There is in addition the consideration of the cognitive stage in the purchase behaviour and relating the appropriate message to the particular stage. In the early stages when the promotion exercise is directed at a widely dispersed market within which the potential users are heavily diluted by non-customers and when the people targeted by promotion know nothing, or very little, about the place then the agencies have to capture attention and focus it especially on the general and distinctive characteristics, pursuing a "strength" strategy and persuasive techniques. In these early stages the most essential task is to call attention to the place and establish it as an alternative to others often through spectacular promotion of its general and favourable features. Conveying specific information is inappropriate and the application of a "weakness" strategy would be dangerous in these stages because negative elements may be established which will prove difficult to counter later. In the later stages when more of the characteristic features are known then comparison with other places, explicitly or implicitly can begin and detailed relevant information must be transmitted. In these cases much more attention must be paid to the specific characteristics and the "weakness" strategy can be used. People comparing and selecting the potential places need more detailed information and in this case the negation can attract more attention than the assertion. But the most important thing is that the final decision requires legitimising by more personal sources, whether at first hand through an exploratory visit or an exhibition or if this is not feasible through personal contacts whether acquaintances or professional intermediaries (*Ashworth-Voogd*, 1990a).

The problems of a place promotional campaign

The agencies concerned with place promotion have to cope with a range of different problems. Among these, and of interest in the spatial context, are the so-called shadow-effects (*Ashworth-Voogd*, 1990a), which means that the image of one place overshadows the images of neighbouring places. This may be positive (i. e. a place can reap the benefit of the attractive image and promotional activity of its neighbour) or negative (i. e. it is possible that the poor image of a place is disadvantageous to its neighbour). Promoters try to benefit from favourable shadows and distance themselves from unfavourable ones. Such shadowing can occur between different levels in the spatial hierarchy as well as within them.

There is also the obvious problem that there are many places simultaneously engaged in conducting promotional campaigns focusing attention on the same messages and hence it is necessary, to find a distinct enough message.

It is very important to bring into harmony the place-product and its spatial scale. On the one hand the place exists at a particular spatial scale and the effective promotional campaign needs agreement between the promotion pursued by different agencies belonging to the distinctive hierarchical levels whether national, regional or local. On the other hand this may cause some difficulties if the spatial scale and the delimitation

of the product purchased by the consumer do not correspond to that marketed by the producer (*Ashworth-Voogd*, 1990b). This means that the place promotion by public authorities is in practice constrained by the actual jurisdictional bounding of the areas for which they are responsible and there is no guarantee that such boundaries will correspond to those of the place image held by users.

The targeted groups

The choice of the targeted groups is important influencing the content of message and nature of the agencies operating the promotional campaign. Some general characteristics of the main groups are listed below but each of these can be subdivided and each subgroup may need a distinctive approach.

Residents

The creation of a favourable image among residents is critical because only this can establish the local self-confidence needed as a basis of further successful activity. But existing residents are in a special situation because they have their own first-hand experiences and thus expectations which especially focus on ubiquitous characteristics (for example shopping opportunities and transport networks). Agencies need to stimulate a civic consciousness among the existing inhabitants by organising programmes (such as exhibitions or festivals) which reinforce a sense of not only of identity but also empowerment.

Entrepreneurs

Local development agencies engage in promotion to commercial entrepreneurs and investors in order to profit directly or indirectly from the establishment of new firms in the local economy. The uncertainty threshold of the high risk of failure needs compensating. This is essentially a self-confidence boosting exercise in which new firms are associated with successful existing enterprises (*Burgess-Wood*, 1988).

The aim of these activities is to stimulate further enquiry and establish contact with decision making executives. The personal contact is critical especially in the final stages of decision-making not least to deflect possible prejudices about the suitability of a place. Such contacts can be broadly termed public relations.

Tourists

The holiday purchase is peculiar in a number of ways. The site visit is rarely an integral part of the search process and previous direct experience of the holiday-maker or acquaintances is a poor predictor of future satisfaction because the conditions determining success are specific in time and space (*Goodall*, 1988). Consequently potential tourists have to choose between a wide range of alternative destinations on the basis of extremely limited information. For this reason the choice between honesty and hyperbole in the message plays a very important role during the promotional campaign. The existence of bias is inherent in the purposes of competitive promotion and probably expected by recipients but a gap between the expectations evoked by advertising and the reality of the holiday that is too wide can lead to post-purchase dissatisfaction and a lack of repeat orders (*Stabler*, 1988). The tourist product is assembled from the variety of services and experiences obtainable there but this is conducted principally by the consumer not the producer. Therefore the place is

marketed by destination agencies without any clear idea of the nature of the individual product being consumed. In addition those responsible for the product promotion are unlikely to be the same as those concerned with the production and operation of individual components. This fragmentation is also complicated by the existence of both private and public sector enterprises at different points in the production and marketing process. Lastly tourism areas evolve over time through a hypothetical cycle of product evolution. The promotional campaign must consider the particular phase of the area as the objective of promotion at each stage will be quite different.

The projected place-images of Groningen and Debrecen

The nature of Groningen and Debrecen

A comparison between a city in the Netherlands and in Hungary has more obvious contrasts than similarities. The Netherlands is a westward oriented trading economy, combining a high social wage with considerable export success, managed through a highly developed market economy in a mature pluralist democratic system. Hungary in contrast is emerging from 40 years experience of the command economies of the Soviet economic and political hegemony and is a landlocked, Central European oriented country. However both are compact European states with relatively small populations: each is a small culture area maintaining a distinction in the face of the same culturally and economically dominant neighbour. Equally the economic and political differences can be overemphasised. Hungary passed through a period of rapid, if partial, capitalist economic transformation in the second half of the nineteenth century and again after the adaptation of the "new economic management" plans after 1968 since when it has acquired considerable experience of the operation of free market enterprises. It also has a skilled and largely industrial labour force, a notable reputation for innovation and an ethnically homogeneous population.

Both cities lie between 180–200 km from the economic and political core areas of their countries which although not far in many respects nevertheless can be a decisive factor in many aspects of economic and social life. Both are the largest settlements in their region. Groningen has about 170,000 inhabitants in its core agglomeration, but has an extensive dependent service area: Debrecen has about 220,000 inhabitants, is the second largest city in Hungary after Budapest and again has no rival in Eastern Hungary.

Both towns are official administrative centres of province Groningen and Hajdú-Bihar county respectively. This fact means that the offices which serve the administrative needs for political, commercial, cultural, educational, tourism, and other functions are concentrated in these cities. More widely both settlements have for historical reasons become the unchallenged centre of a wider region (the Northern Netherlands and the territory east of the River Tisza). It is appropriate to single out for mention one set of such institutions namely those in higher education, particularly the Rijksuniversiteit Groningen and the Kossuth Lajos University, Debrecen. The possession of such higher education complexes of national and international significance is an apt reflection of this critical service capital function.

The tertiary and quaternary sectors dominate employment in both cities (80 per cent in Groningen and 50 per cent in Debrecen) and both have rates of unemployment

notably higher than the national average (between 15–20 per cent in Province Groningen and 11–12 per cent in Hajdú-Bihar county).

Peripherality both exacerbates the economic problem but again in both cases contributes towards solutions. Cultural distinctiveness, a strong sense of regional identity and a historic reputation for fortitude is characteristic of both the Northern Netherlands and Eastern Hungary. This character power much of the determination to lessen dependency upon the central regions and project something of this self-confidence outwards to new markets.

The existing images

The importance of the existing image provides a logical starting point for this analysis. A major difference between the situations in Groningen and Debrecen is that in the former, unlike the latter, a substantial amount of scientific work has been done which support promotional campaigns.

The images held by entrepreneurs has been investigated (*Pellenburg-Meester*, 1984; *Pellenburg*, 1989; *ter Hark*, 1989; *Pellenburg et al.*, 1991). A sample of 388 firms and a national telephone enquiry examined the place of Groningen as a commercial location in comparison with other locations. These concluded that the city does not have a favourable image: 75 per cent of those asked would not have selected the province as a place of residence and the entrepreneurs ranked Groningen in the 57th place among 70 national locations.

The explanation of this unfavourable image lies in the perceived peripherality of its location with respect to clients and suppliers (*Pellenburg*, 1989) and lumping of the city in the image of the northern region as a whole. Thus the city suffers a negative shadow effect from the province and from the region. Whether the reverse is also true and the province gains a positive shadow effect from the city is not known. Thirdly there are problems deriving from the ready acceptance of false information about the city. An example of this with potentially serious implications is that in 1988 (*Pellenburg et al.*, 1991) 27 per cent of respondents supposed that the distance between Groningen and Amsterdam was more than 200 km (it is only 185 km). 34 per cent supposed that Groningen was ranked eighth most populous Dutch city (it is 6th) and the average opinion was that the number of inhabitants in Groningen was 120,000 (it is 170,000). The assumptions that Groningen is smaller and further away from the Western Netherlands than it actually is could be a serious drawback for many activities. Fourthly many of the companies located in the province appeared to be little known elsewhere or, if known, were not especially associated with Groningen. The image of the provincial economy was still strongly defined by agriculture and the petrochemical industry (*ter Hark*, 1989).

There were also favourable elements in the Groningen image. Dutch entrepreneurs regarded the strongest points of the province as the mentality of the people (a vague conglomerate of general attitudes and work ethic), the favourable quality of life (composed of such elements as low property prices, low crime rates and good outdoor recreational and entertainment opportunities), and finally the availability of various subsidies. Most noticeable was the high valuation placed on Groningen as a city of art, culture and education. There was also a general impression that the city fulfilled a bridge function with Northern Germany and Scandinavia.

A recent national survey of the images of Dutch regions held by tourists has sketched a similar pattern although the elements are differently evaluated. Peripherality for example may be seen positively rather than negatively. Only 2 per cent of Dutch holidaymakers considered Province Groningen as a potential holiday destination but these saw the province as having an attractive, peaceful landscape and hospitable people. Historic cities, museums and cultural life in general were all positively valued. However Groningen was competing unsuccessfully with provinces with similar images such as Limburg and Friesland. The contrasting rural and urban images presents special problems of promotion (*NBT*, 1992).

In Debrecen a different approach is required because over the last 40 years marketing science was not politically acceptable thus local authorities rarely undertook marketing surveys or pursued promotion policies. Markets of various sorts did of course exist: most notably after the economic management reforms of the 1970s, and many public services were conscious of the images of them held by actual and potential clients. However the published image research of the sort described for Groningen was not freely accessible nor undertaken by public authorities, which explains the almost total lack of academic interest in the existing image of Hungarian cities. Thus after the collapse of the centrally directed economic system and resulting decrease in central subsidies, the cities were not equipped to exploit the possibilities of a market oriented approach to urban development. This makes it difficult to be as authoritative about the existing image of Debrecen as for Groningen.

Footloose indigenous capital is scarce or missing and thus substantial Hungarian investment is not to be expected in the short term. Therefore the city has to target foreign investors and promote a favourable impression to them. In foreign promotion however the image of Debrecen cannot be separated from that of the country. Hungary has long had a few strong elements among its image held by foreign entrepreneurs. These include skilled labour and the experience of more economic and political freedom than other communist countries, stable political conditions and reasonably satisfactory infrastructure. But Debrecen and the Eastern part of the country could not benefit until recently from these advantages because Budapest dominated the foreign perception of Hungary. However this situation changed gradually after 1991. The collapse of the Eastern European communist system opened up new markets, chiefly in the Ukraine for Western European firms who presently see Eastern Hungary as an entry for trade directed at these neighbouring areas.

Foreign tourists see Debrecen as a part of a region of considerable natural resource, historical and ethnographic interest, namely the Great Plain and Debrecen is the largest city close to this well known area. Hungarians react differently to Debrecen: they associate it especially with historical and cultural elements. Debrecen is perceived as the most important economic and cultural centre east of the Tisza but it is also seen as inhabited by obstinate people.

The early stages of image promotion

The results of existing surveys which revealed the deficiencies made the work of the local authority in Groningen easier. It set itself the task to suggest that Groningen is a large city, situated not far from other parts of the country. It also attempted to reinforce the favourable elements in the image. There are many participating agencies in

Groningen: Each department of the local authority has some promotional responsibility and a central promotional department co-ordinates their work. There are other relevant agencies such as the Provincial tourism promotion office, "Groningen City Promotion", and the "Bureau Studentendecanen", which has the responsibility of attracting students to Groningen.

To improve the image of both province and city an intensive promotional campaign began in 1989 in which the province, the city, eight other neighbouring local authorities, many companies (for example AKZO Delfzijl, PTT Nederland, NMB Bank) and institutions (for example the Chamber of Commerce) participate. The main campaign purpose was to alert people to aspects of the city. Press advertisements and television commercials used the slogan: "There is nothing above Groningen" or "Groningen - Top of Holland". This slogan uses the northern location to suggest that superiority also applies to other aspects of urban life, such as education, culture, entertainment or recreation. The advertisements highlight the favourable elements of the province, such as the investment climate, cheap land, the mentality of the people and the co-operative nature of government.

The city has its own campaign as well as participating in that of the province. In this the size of the city is central in order to contradict the idea that Groningen is a small provincial town. Cultural, economic, sportive, scientific and recreation facilities are stressed. In addition the VVV often organises exhibitions (especially in the main tourism markets of Germany, Scandinavia and Britain). In addition the university and the three colleges also have a promotional campaign partly subsidised by the city. This operation uses an eye-catching multicoloured publication and radio commercial "Groningen your student town" in which former students speak about experiences in Groningen. This publication focuses attention on the sporting and entertainment elements in student life. These institutions also maintain relations with the schools through intermediaries who spread information. The aim of these activities is to provide information about Groningen, and the university and to stimulate further inquiry in order to attract potential students to the Spring and Autumn "Information days".

The local authority and other agencies try to alert both foreigners and Hungarians to Debrecen in different ways. First the local authority publishes a newspaper advertisement in selected Western European economic trade journals. This stresses the favourable geographical location of the city, the citizens' enterprising spirit and the business mentality which earlier made it an important centre of East-West trade, the excellent educational system which goes back to the early seventeenth century and to the diversified economic structure.

It promotes the most impressive monuments such as the Calvinist College, the main Church, the University, the BIOGAL Pharmaceutical factory (the most advanced in Debrecen). Secondly the local authority fosters closer contact between Debrecen and other cities especially the "twin cities" of New Brunswick in the United States and Paderborn in Germany where the city organises exhibitions to inform inquirers about available opportunities. Similarly delegations from these cities are contacted about the possibilities of closer collaboration in fields such as commerce, culture or tourism. Thirdly the county tourism office ("Hajdútourist") together with other agencies participate in exhibitions organised in Hungary (such as "Journey 91") and abroad (recently in Essen, Frankfurt, and Antwerp). It also organises visits for foreign (especially Ame-

rican, German, and Finnish) journalists and guidebook writers. However the university feels it has a traditional student market and a near regional monopoly.

The purpose of these operations is to create and promote a favourable general impression of Groningen and Debrecen. Different but not necessarily exclusive targeted groups are identified (entrepreneurs, holiday-makers and students). The most important task of these activities is to create awareness, knowledge and preference i.e. they attempt to influence the early stages of purchase behaviour and their main purpose is to create further inquiry.

The later stages of image promotion

The final purchase decision of potential customers needs more detailed and comparative information. Various agencies have the task in the later stages to encourage preference, conviction and ultimately purchase.

The entrepreneurs as a targeted group

In Groningen potential entrepreneurs can receive information from the city's Department of Economic Affairs, through brochures providing general information about the city. These focus attention chiefly on three elements.

- Communications, in order to counter the prejudice about isolation with travel times;
- Economic development highlighting existing companies. This demonstrates that the town can accommodate high-tech organisations. Similarly attention is drawn to the high quality educational and research institutions providing skilled labour and technological support;
- Quality of life alluding to housing conditions, shopping, culture and recreation opportunities the city.

To aid the final comparative decision the brochures publish details of the existing industrial and office space costs, available facilities and accessibility. In addition the opinions of named local companies are used to convince other entrepreneurs, counter possible objections to investment and existing prejudices.

Intermediary agencies facilitate the establishment of companies, such as the SIG (Stichting Industrie- en Handelsgebouwen Groningen) whose main objective is to stimulate economic activity through the hire, purchase and reconstruction of premises for clients.

The city also offers various subsidies to potential entrepreneurs such as the 20 per cent investment rebate of the "Investerings Premie Regeling". The city distributes local news information to existing companies. This department also organises a "Bedrijvencontactdag" (company contact day) for managers of businesses to contact each other, their suppliers, and city representatives. The city also makes "enterprise awards" and organises seminars.

In Debrecen's promotion of investment the most significant disadvantage is the lack of appropriate printed information on the economic opportunities available. There is at present no agency distributing information to potential investors on available industrial or office space and assisting in the establishment of new enterprises. The collapse of the communist system and the 1990 local elections led to a new management whose first task was the adequate operation of the city's services not promotion, which was hampered by both a lack of previous experience and finance. The city does apply for

various financial subsidies offered to small enterprises by foreign governments and it participates in the "regional economic development foundation" whose goal is to help new enterprises through credits, foreign trade offices, industrial parks, and incubator sites.

The weakness of the local authority favours other agencies more attuned to helping entrepreneurs. The most important is the North Alföld Regional Chamber of Commerce whose commission is very ambitious facilitating contact between local and foreign firms. It helps the flow of information and organises skills courses for managers.

There is also an important "Organisation of crafts" which advises and influences the local authority, helps them to solve accounting, taxation and various technical problems.

The tourists as a targeted group

In promoting these cities to potential tourists a close relationship exists between the cities and their surroundings. Both Groningen and Debrecen can offer tourism facilities to satisfy visitors for only up to 2-3 days and to extend this period they must include the endowment of their surroundings. Therefore both cities have to create an image stressing both an attractive city and a gateway for their surroundings.

In the Dutch city promotion concentrates especially on the city centre and projects a positive impression as an "historic city", a "shopping centre", and a location of various "events". The selling of the past to the present is one of the most profitable parts of the tourism industry (Ashworth, 1988). In Groningen this promotion rests on the products of its 950 year official existence including various museums, historical buildings and spatially clustered conserved areas, linked by a "town-trail" distributed by the VVV. The local authority also reinforces this facet of the city in its 1988 inner city policy in which a number of "tourist circulation routes" were identified. The city is presented as a shopping centre to its suburban population and to visitors. The local authority and the "Groningen City Promotion", an organisation of city centre entrepreneurs, exploit the fact that Groningen offers competitive shopping opportunities to the large cities of Northern Germany and, unlike Germany, shops are open on Saturday afternoons. The city offers a varied programme of events including the Bloemenmarkt, the Landenweek and the Jazz Festival.

Groningen promotes the benefits offered by its pleasant surrounding countryside and profiles itself as a centre of tours in the province especially through brochures referring to sites in the province (including 25 walking and 100 cycle routes, many lakes and the Pieterburen seal sanctuary). An important promotion intended to shape a favourable image of both the city and the province is the "Green Coast Road" holiday route between Scandinavia and Western Europe routed through the province (Bergsma, 1988).

Debrecen promotes historical, cultural and natural attractions largely to domestic markets stressing the association with Calvinism, Bartók, the thermal spa and the forest setting.

The city is promoted to foreigners as a high amenity location for study tourism and gateway to the "Great Plains" as storehouse of natural and ethnographic attractions.

Neither city is thus a specialised tourism centre: both promote a varied image to fragmented markets.

Students as a targeted group

The University and colleges in Groningen and the three universities in Debrecen use similar promotional methods. In Groningen the most important is the personal visit during the Spring and the Autumn "information days". In Debrecen there is an Autumn open day and, as in Groningen, faculties distribute information to the secondary schools.

The residents as a targeted group

Both cities attempt to improve their image among their own citizens, important because both underestimate the size and significance of their own city and both perceive themselves as victims of a unfair national image and a discriminatory national development strategy. Local authorities cannot totally expunge these negative impressions but they can mitigate their impacts. Since residents especially focus their attention on ubiquitous characteristics, such as shopping or transport, promotion concentrates on these facilities. Secondly promotion to other markets including the mention of the city's name in the mass media, the presence of tourists and events organised mainly for tourists confirms the residents' belief that these are important towns. In addition local authorities try to reinforce the civic loyalty of citizens by involving them in significant and symbolic local decision making.

Assessment

The obvious contrast between city promotion in the two cities is simply that it is better organised and more far-reaching in Groningen. Debrecen has no co-ordinating local authority promotion department and little understanding of the strong and weak elements of existing images. In the early stages in particular, Groningen promotion is more spectacular using a variety of marketing channels, including advertisement through television, radio, newspaper and posters. The widest differences exist in the quantity of detailed information conveyed to potential entrepreneurs. Debrecen has no informative brochures and no facilitating institution for entrepreneurs seeking premises. Promotion to holiday-makers, students and citizens is very similar, both towns using the same methods and the same information, for the same purposes.

In terms of improvement, Groningen's hyperbole promises much that its infrastructure cannot in fact deliver, such as its bridge function with Northern Germany and Scandinavia. In Debrecen the need is to recognise the existence of its market context and adjust its service provision accordingly. This is a matter of attitude and selection. The city's traditional bridge function for trade in East European markets, the tourism potential of the health spa and the intellectual resource of the university offer obvious under-exploited potential.

However the achievement of these objectives requires the precondition of winning central government support, especially with transport, and successful competition especially with Miskolc and Nyíregyháza which have similar locational and facility endowments. Both require more effective city promotion of three types. First joint supportive product marketing through new co-ordinating institutions such as between the thermal spa and the medical university, between the existing universities establishing an educational centre on a European scale and between these and the government research establishments. Secondly, city lobbying with the national

governments for considerable financial assistance and infrastructural improvement. Thirdly nothing will be possible without the active co-operation of citizens themselves and it is this civic consciousness that may prove the most difficult to develop if only because of its past unfamiliarity.

Thus city promotion is both a major instrument of the transition to market economies but also a symbolic reflection of progress in that direction. Groningen represents a future which for Debrecen is still distant but not unattainable.

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30 HUNGARIAN LOCAL GOVERNMENT: A PERMANENT REFORM?

ILONA KOVÁCS, PÁLNÉ-ZOLTÁN HAJDÚ

Introduction

For Hungarian society, state and public administration, the 20th century has brought radical systemic changes. These structural changes can be associated mainly with the two world wars and with consequent external and internal transformations, and processes. The recent social, economic and political changes have also taken place as a result of the interaction between external changes and internal processes.

It is one of the most characteristic features of Hungarian economic, social and political change, that continuous correction and the efforts to reform the system were present in Hungarian political thinking from the 1960s. These were partly put into practice as far as the economy was concerned. Within the Hungarian Socialist Workers' Party (HSWP), the ruling state party, the efforts to carry out a change of the socialist model, and reforms directed from above, were gradually strengthened from the mid 1980s onward. In connection with these efforts, relatively comprehensive scientific research was conducted in the 1980s as a contribution to the drafting of the constitution and the new council act, both of which were aimed at the democratization and decentralization of state administration.

Due to the changes of external conditions, primarily the fundamental restructuring in the Soviet Union, the conceptional possibilities of those who were thinking of changes within the system were expanded. At the same time opposition efforts questioning the socialist system as a larger whole gradually strengthened and gained publicity.

The content, form and schedule of changes in Hungary were neither developed nor decided in the street. At one extreme, this process happened within the HSWP during political debates and fights between the followers of systemic change and those of model change. At the other extreme, the "constitutional rules of the game" of systemic change were worked out during the trilateral round-table discussions between opposing parties, the ruling party and other social forces. The contents of Hungarian systemic change were laid down by prearrangement, most of which was codified by the last state party parliament and legitimized by the modification of the constitution.

After the proclamation of the Hungarian Republic on 23 October 1989, the fundamental institutions of multi-party parliamentary democracy and a modern European legal state were established. The election system reflecting the plural political relations, a continuously functioning Parliament, the institution of the President of the Republic, government responsible to the Parliament, a constitutional court etc.

The fundamental institutions of the new system developed in a relatively short period. Concurrently, the principles upon which the new state was to be built, (division of branches of power, indirect democracy) appeared on the scene. Newly-declared values started to have their effects; but reconciliation of these values to their actual functioning, required time to get going.

As far as public administration is concerned, the important changes from era to era in Hungary always meant the rearrangement of political objectives, environment and conditions. In respect to its tasks, it was natural that the Hungarian public administration "conformed" to current political expectations, conveyed political will and implemented current political aims.

The old and the new political forces agreed that the Soviet type council-system should be eliminated. These debates culminated in the development of a new public administration structure. The question to be answered was what sort of functional, organizational and regional system should be established for the new democratic Hungarian public administration?

Local-territorial public administration of the socialist system: what had to be eliminated

Soviet type local-territorial public administration was institutionalized in the Hungarian public administration by the Constitution of 1949 and the so-called Council Act of 1950. The introduction of the council-system resulted in the total nationalization and centralization of public administration. Each level of public administration was controlled and regulated directly by the Party.

According to the Constitution and the Council Act of 1950, the councils were defined as local organs of state power and state administration, and placed within the state system. Council administration was characterized by strict hierarchy. Councils on higher levels had total control over their subordinates.

While the character of public administration was completely changed by the introduction of the council-system, only smaller modifications were made to the former territorial divisions (county, district). The number of counties was reduced from 25 to 19, the districts from 150 to 140 and settlements from 3,250 to 3,169. Independent councils were set up in almost every settlement. Only 170 joint councils were established with 361 settlements. With respect to towns, the capital, Budapest, was put under the indirect control of the Cabinet. The 24 provincial cities with bigger populations were put under the control of the county councils, and 29 other smaller towns under the district councils.

When determining the territorial configuration of the council-system, the territorial framework which had been set up during the historical development, and which had asserted the interests of the former power quite well, was not destroyed, but taken into service to contribute to the building of socialism.

The "original" structure was slightly modified by the Second Council Act, passed in 1954. All towns, without exception, were removed from the authority of the district councils and were subordinated to counties. Budapest maintained its special status. The four biggest provincial cities (Debrecen, Miskolc, Pécs, Szeged) were given county rank.

Both the first and the second Council Acts were characterized by a determined focus on and hyper-dominance of counties. The new power relied mainly on the counties, just as the former. That was the level on which the most complete state and political institution system were set up.

The political importance of districts strengthened during the forced collectivization of agriculture, but after the stabilization of agricultural co-operatives they lost much of their function.

The Third Council Act of 1971 re-composed the nature of councils by defining them as representative, self-governmental and state administration organs. On district-level the representative bodies of councils were eliminated. Until the end of 1983, the offices of the executive committees of county councils served as a specialized type of administrative agency in districts.

On 1 January 1984, the umbrella administration of the areas surrounding the towns was temporarily introduced in order to help the switch-over to a two-level (county-settlement) public administration. Towns were given a role in conveying county-level public administration but no hierarchical relationship was set up between the council bodies. The aforementioned area administration, however, did not affect the dominance of counties.

As a result of the often constrained and ambiguous reforms, an extremely complicated public administration structure developed by the end of the 1980s. Confusion appeared not only in the content but also the organizational structure of the council system. This situation preceding the "elimination" (*Table 30.1.*) reflects, from several aspects, a rather heterogeneous system of relationships; nevertheless it had some advantages as well in going some way towards modelling the different types of relationships between settlements.

Table 30.1

Structure of councils in number, 1989

Type of councils	Number of councils
County councils	19
Council of Budapest	1
District councils in Budapest	22
County town councils	8
Town councils	140
Town joint councils	17
Large village councils	118
Village councils	571
Village joint councils	507

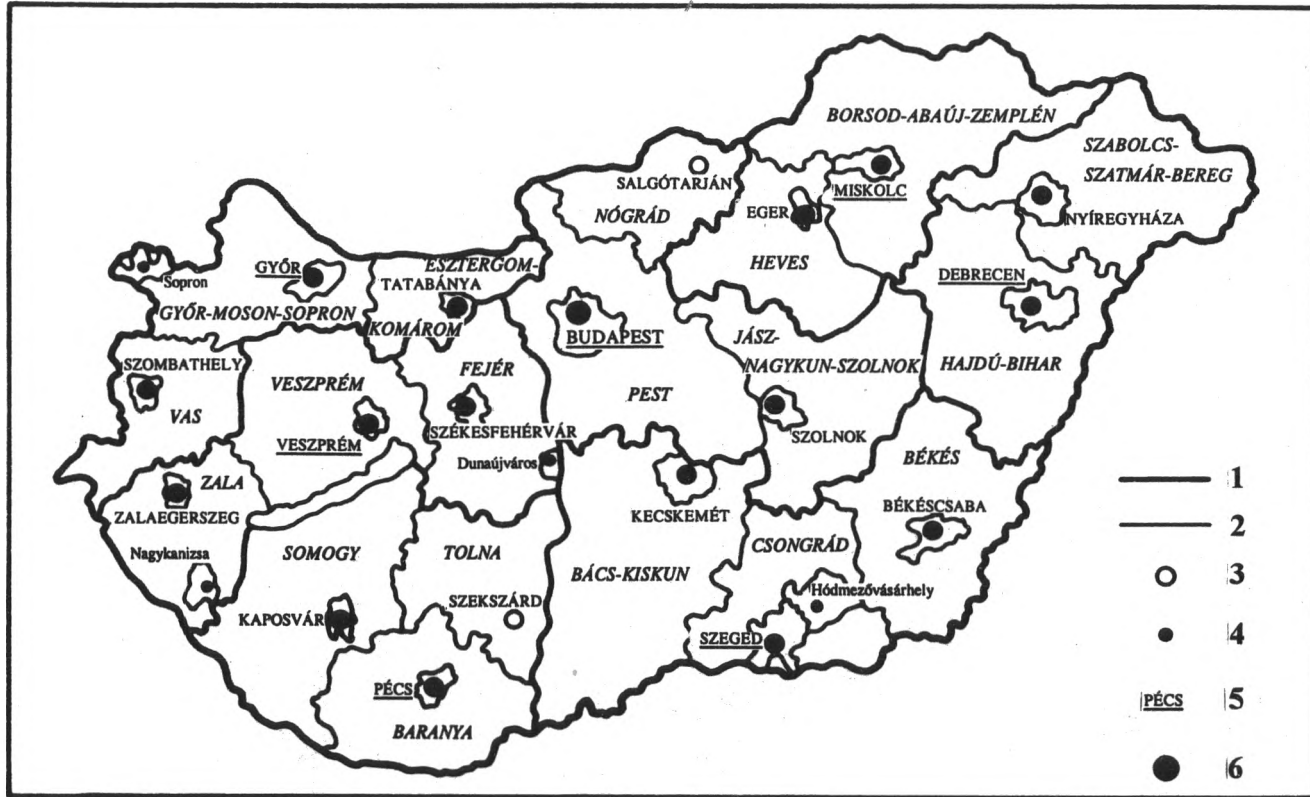
The way the local-territorial public administration was reformed

According to the amended Constitution of 1989 which outlined the most important framework of local government public administration:

- The territory of the Hungarian Republic is divided into capital, counties, towns and villages: the capital consists of districts and towns can be divided into districts (*Figure 30.1*);

Figure 30.1

The territorial structure of the Hungarian public administration, 1993



Key: 1=Region of the Commissioner of the Republic; 2=County, towns of county rank; 3=County seat; 4=Towns of county rank; 5=Centre of the Commissioner of the Republic; 6=Capital.

- Local self-government enables the independent and democratic management of local affairs affecting the enfranchised inhabitants (suffrage), and the exercise of public power as the welfare of the population requires it;
- While local governments are equal concerning their fundamental rights, they might have different obligations;
- The lawful exercise of competence of local governments enjoys judicial protection;
- Voters exercise local self-government through their elected bodies of representatives and the decisions of local plebiscites;
- The mayor is the chairman of the local body of representatives, the body of representatives elects its committees and has the right to set up an office;
- In addition to his local government duties, the mayor, on the basis of empowerment by law, may fulfil state administrative tasks and competence as well; and
- A law, or government decree, may assign state administrative duties and the competence of an authority to the notary and, in exceptional cases, even to the manager of the office of the representative body.

In comparison with the former council-system, this regulation has brought a fundamental change by defining self-government as a right of the local community and therefore taking local governments out of the organizational hierarchy of state administration characterized by sub- and super-ordination.

According to the regulations of the Local Government Act, the local government may, within the framework of this law:

- autonomously form its organizational and operational order,
- independently dispose of all local government property and manage its revenue on its own, and
- freely form associations with other local governments; and, in order to have its interests represented and protected, adhere to territorial or national interest organizations.

The fact that decisions made in local government affairs are definite, and may be reviewed from legal points of view only by a court, constitutes the most important guarantee of independence of local governments.

The Local Government Act has given a framework-type of definition concerning the tasks and competence of municipal governments. Among local public services, the municipal government is responsible especially for: settlement development and landscaping; the protection of the built-up and natural environments; the management of flats; water-management (including the draining of excess water from precipitation); drainage; maintenance of public cemeteries; maintenance of local roads and communal areas; local mass transport; ensuring the cleanliness and tidiness of the settlement; seeing to local fire prevention, fire-fighting facilities and the problems of local public safety; participation in local power services and in the solution of employment problems; kindergarten care, primary school education and instruction; public health and welfare provisions; maintaining public parks and gardens; supporting scientific, artistic activities and sport; ensuring the observance of the rights of national and ethnic minorities; and, promoting the community conditions for a healthy way of life.

In regard to the tasks listed above, it is the municipal government itself who decides which of them to undertake, and to what extent, but the law compels municipal governments to see to a minimum of public services; i. e. they are obliged to provide safe drinking water, primary school education, basic health and social welfare provisions, public lighting and the maintenance of public roads and the public cemetery. It also has the obligation to ensure the assertion of the rights of national and ethnic minorities.

It is a special characteristic of Hungarian regulations that the above-mentioned public services do not belong to the exclusive competence of local governments but they are, or can be, undertaken by state and other organs as well. The fact that public affairs of local concern has not gained constitutional protection has resulted, consequently, in a stronger and stronger state intrusion into the local affairs of the community.

Therefore, the following conclusion can be drawn: while the scope of possible tasks for local governments is incredibly wide, including all the elements in the life of the community, the resources available do restrict the undertaking of these responsibilities, since they provide a guarantee for the obligations only – or, in some cases, not even the obligations.

The Local Government Act was framed as a product of conscious jurisdictional and political intention; having provoked heated debates, the county survived as a unit of public administration but with a radically reduced content. What it means is that the self-governing rights of settlements have been overvalued, while those of the county have been undervalued by the legislators of the Local Government Act. County governments have been institutionalized as subsidiary units which can mainly undertake tasks the municipal governments are not able, or not willing, to carry out. The indirect election system of counties has also contributed to their weaker legitimization.

Cities with county rank have a special place among the other municipal governments. The law enables a town with a population of more than 50,000 people to be declared a city with county rank. These cities do not represent themselves in county governments; they are different from their surroundings in terms of local government administration; their separate status means nothing more but the right to perform county-level tasks in their own areas by virtue of law.

The specialized administrative agencies of the former county councils have been either eliminated or revived as deconcentrated state organs. As a result, in 1993, there are already 36 of them, mainly on the county level. Their having been taken out of the local government administration can be accepted in some cases, but many of them could be integrated into the system of local government administration.

According to the government, the process of deconcentration – that is the counties' being deprived of carrying out state administrative tasks as self-governments – can be justified, since it would contradict the principle of equal status of self-governments declared by the law by resulting in a hierarchy where the county dominates the municipal government.

The institution of the Commissioner of the Republic, functioning in a multi-county territorial framework, was introduced as a new unit in Hungarian public administration. The Commissioner of the Republic ranks as a honorary state secretary

and is appointed by the President of the Republic. The Commissioner of the Republic was meant to provide the legal control over the operations of local governments. Nevertheless, the Commissioner of the Republic performs state administrative tasks in addition to his original function, and there are certain efforts to expand his scope of competence, and to endow it with a political content. In this sense, the Commissioner of the Republic is becoming more and more a means of state centralization.

The 1991 law on local governments and their organs, on the Commissioner of the Republic, and on the tasks and competence of certain centrally subordinated organs, dealt with the tasks and competence of state administration in a unified framework and in terms of administrative branches. The itemized lists show that most of the affairs were actually transferred to the competence of municipal government; however, several important local-territorial tasks were referred to the deconcentrated agencies, while the county governments received hardly any competence.

The character of the Hungarian public administration has gone through a fundamental change. Although its organizational structure and its internal integrity have been radically modified (*Table 30.2.*), its territorial order has hardly changed. The regions of the Commissioners of the Republic have brought new elements of management and drawn new border lines on the maps, and it seems obvious that county-rank cities necessarily penetrate and fragment the integrity of county territories.

Table 30.2

Structure of local government administration (January 1993)

County	Capital, town of county rank	Other towns	Villages
Budapest	1	—	—
Baranya	1	4	297
Bács-Kiskun	1	10	105
Békés	1	11	62
Borsod-Abaúj-Zemplén	1	14	336
Csongrád	2	5	52
Fejér	2	5	98
Győr-Moson-Sopron	2	3	168
Hajdú-Bihar	1	14	66
Heves	1	6	111
Jász-Nagykun-Szolnok	1	14	62
Komárom-Esztergom	1	7	65
Nógrád	—	6	119
Pest	—	16	166
Somogy	1	11	228
Szabolcs-Szatmár-Bereg	1	11	216
Tolna	—	7	101
Vas	1	6	208
Veszprém	1	8	214
Zala	2	5	250

New reform – or just correction?

The new self-government public administration has proved its ability to operate efficiently; and, in spite of internal problems, the majority of the representative bodies have actually managed to become the leading agent in the life of a given settlement. While preparing for the new elections, both the existing parties in parliament and other political parties are being forced to re-consider the place, role and operation of public administration. The approaches concerning this can be divided into two main groups. 1) The basic institutions of public administration have proved to be successful, what they need is just some additional refinement and adjustment; 2) The self-governmentally based public administration has proved to be successful in principle, but in practice, its regulation needs a radical and fundamental reform. (These two distinct approaches cannot be entirely associated with this or that political party, because different opinions exist even within the single parties and are published by personalities in responsible positions.)

Questions of adjusting self-governmental public administration

The majority of the debates focussed on the territorial middle-level (Commissioner of the Republic, county, cities with county rank, deconcentrated agencies), just as in 1980. There seems, therefore, to be no reality for the introduction of reforms during this election period, so again, a new compromise will be probably made on the basis of the new power relations.

The institution of the Commissioner of the Republic simply does not make sense in the present territorial configuration. The regions of the Commissioners of the Republic do not carry any real territorial interest. However, they have already set up their offices in each county, so there seems to be no point in the maintenance of a nothing but formal regional organization.

Most of the parties believe that the 1990 Local Government Act compromise concerning the county-issue was not successful; first of all, the deliberate efforts to make the county insignificant were politically-motivated first of all. In favour of public administration, there is a need for county governments of full value or, at least, enjoying a wider scope of roles, which would be able to integrate the local government system which is presently scattered into rather small units, and to take over the majority of tasks carried out by deconcentrated state organs at the moment.

The issue of county-rank cities is on the agenda again. There is a stronger and stronger opinion, according to which it was rather unfortunate to take such a wide range of towns out of the county. The debates will concentrate on the question as to whether all towns except Budapest should be "put back" in their counties, or towns with a bigger population than 100,000 should be regarded as real cities, and only those eight cities should be given the special legal status. (The problem lies in the different character of the eight cities with above 100,000 people, even these are not unified. Concerning their functions, they can be divided into three groups: 1) Cities without real large-area roles: Kecskemét, Nyiregyháza, Székesfehérvár; 2) Regional centres with insufficient functions: Győr, Miskolc; 3) Regional centres of full value: Debrecen, Pécs, Szeged.)

The potential downgrading of cities with county rank might stir up considerable opposition in the given towns; in spite of that all city leaders are well aware of the fact

that, according to the present regulation, their county-rank does not mean real gain from the administrative point of view. This opposition implies historical-emotional elements, rather than rational and administrative ones. Many of these cities felt relief in 1990 when they had the opportunity to get rid of their county, and especially of the dominance of county seats. Under the present political-economic circumstances, however, town development has practically nothing to do with its administrative status; the isolation of big cities from the county has led to more harm than advantages for the towns.

The essential part of the territorial public administration is carried out by the deconcentrated agencies. In connection with these organs, the question of their re-integration into the county can be raised, with some exceptions. This can be realized only if we can understand every aspect of the functional division of self-government based administration, and treat county governments as independent territorial units of self-government.

The "adjustment approaches" deal with every aspect and level of public administration, but they want to perform modifications essentially within the system by shifting the centres of interest. They want to change neither the organization of public administration nor its territorial structure, since they do not find the situation ready for radical territorial reforms.

The temptation of a radical reform

The supporters of a radical reform believe that the introduction of a self-governmental system was a positive step in 1990, but it has not brought a sufficient and deep change in each field of public administration, and too many compromises have been made. It is striking that the territorial system of public administration has been left untouched, especially the territorial division.

Those who favour a radical functional and territorial reform want to change or eliminate the county-system from different viewpoints. In general, they think of a two-level local-territorial public administration structure, but there are some opinions which prefer a three-level model (one settlement-level, two territorial levels). Different territorial conceptions have been coined, for example "small county", "large county", "city-county" and "city-district", and combinations of these. Referring to the principle of construction from below, these conceptions, on the one hand, concentrate on the town as the fundamental unit of territorial public administration, and, on the other, want to create large regions to prove our compatibility with Europe. Furthermore, their starting point is not the inner needs of public administration but, almost exclusively, the spatial structure of the country. Consequently, they have hardly any definite idea concerning the functional and organizational content of the reform.

In our opinion, the present economic, social and political situation is not ready for the implementation of radical reform in public administration, since the economic structural transformation and the development of a market economy are overburdening both Hungarian society and its individuals. A radical administrative reform would not reduce the already existing tensions but would induce new ones.

Should radical reforms be forgotten?

The new reform of the Hungarian public administration can be outlined rationally and organically within the framework of a long process. First of all, Hungarian society

should arrive at a mutual agreement concerning the detailed structure of the process of creating a legal state – the declaration of a legal state is not enough.

In a couple of years, whether the complex self-government system, including the level of the smallest settlements, is efficient enough and able to survive, or the integration of settlements and local governments bodies will begin, will be revealed. Our prognosis is that, in the case of lack of legal enforcement, even the smallest villages will insist on their independence, either gained or re-gained. The subsequent governments (of whatever constitution) are not likely to undertake the unification of bodies and settlements by force. (They might create, however, such economic circumstances that enforce the representative bodies and the settlements to unify, otherwise they would not be able to exist.)

The maintenance of administrative offices and office work are already provided for by associations in several small settlements. The subsequent governments are likely to concentrate on the encouragement of office integration. A professional and efficient public administration requires a sufficiently built-up apparatus, and this goal cannot be achieved in the present small offices of the district notaries.

The inter-settlement, especially the village-town, associations may provide a solution to the issue of small region organization, i. e. on voluntary and interest-oriented bases, the joint institutions of middle-level provision and service will develop around cities. But it is a long way to this from of co-operation, and leaders and citizens should cross the "border" both in towns and in settlements as well, as far as their activities and thinking are concerned. These associations connected with towns may form special territorial teams which might constitute the complex framework of local administration on a lower level.

The present counties seem to be able to increase their administrative role in the future, especially because their size is suitable for the state to set up its own organs; but also, as a result of their historical character, they can still be empowered to exercise self-governmental functions. In our opinion, the county cannot be eliminated from Hungarian public administration, but should be inserted rationally between the local and national level.

The idea of a self-governmental and non-self-governmental regional level expanding over several counties has often haunted the reform plans of public administration but, in practice, the regional units have never been able to gain ground as a level of public administration. This does not mean, of course, that the issue of regional administration as such, with a certain content and form, must be excluded in advance. The situation is that public administration at a regional level lacks any significant historical tradition in Hungary.

Our complete unification with the European integration process might bring about essential changes in this respect; the real processes might force the establishment of regional administration.

Conclusion

The present state of Hungarian society, politics and economy can best be described with the following adjective: transitional. The pulling down and re-building of the former structure which was built up during the last 40 years has begun.

In the case of the legal and political formal institutions this task is quite easy, but the creation of new structures based on new values and interests requires time. As far

as the uncritical adaptation of a whole system is concerned, we have acquired enough bad experience to avoid it. Nevertheless, the working out of the optimal solutions and proportions, needs time also. We believe that the Hungarian public administration will have to spend some more years in a state of permanent reform, until society finds the most suitable forms of self-governing, and until the state – the most expanded political organization of the society – identifies the socially accepted proportion between its administrative operation and relative isolation.

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31 SETTLEMENT MANAGEMENT AND FINANCE IN HUNGARY

MÁRIA LÁSZLÓ-PÁL GOLOBICS

Historical economic background

The redistributive function of the planned economy and the direct economic regulatory system, along with the bureaucratic management system, had marginalised and deformed settlement and regional policy. Monocentric economic regulation with the predominant role of the state, had created monopolistic situation in all areas of the social and economic systems. Sectoral issues had priority over regional issues.

For these reasons, settlements were primarily interested in maintaining good relations with their superior organs. The predominance of hierarchical and vertical relations weakened and destroyed horizontal relations, eliminating their ability to generate development.

These problems are not new for Hungarian society. During our earlier history and experiments in economic and social reform, the society was faced with similar problems. The relationships between the economy and policy, State and Market, the process of integration with the world economy versus "isolation", and the problem of foreign economic orientation, had a special importance during reform and economic development processes.

The forced adoption of foreign patterns and their adaptation had priority over the interests of the national economy. This contributed to the disintegration of the regional system of relationships. The subordination of local and regional interests to central administration, and centrally regulated capital formation which eliminated market and competition, weakened economic motivation and continued the lack of economic interest and stimulation.

The growth of the public sector beyond an "ideal point" with its bureaucracy could be the source of losses to private capital investment. It may preserve the present situation and it may weaken the competitive advantage of the whole economy (*Gershenkron*, 1984). Economic historical analyses have shown that in past decades, the Hungarian economy did not utilise potential resources that existed in the local communities. During this time settlement finance was also characterised by central redistribution. There were some attempts at decentralisation of settlement finance. The goal of these initiatives was to balance the inequalities that would have endangered the efficient operation of settlements, especially in terms of infrastructural development. During the distribution and redistribution processes, local resources and demands were suppressed. The special allocations from the state served only the system of priorities and hierarchy of goals created by the state.

This attitude in the field of settlement policy and financing has disadvantaged small settlements and villages. Settlement and regional development, carried out with the logic of bottleneck structures has recreated the differences between settlements and reinforced the existing differences in settlement hierarchy. The development of inter settlement relations and co-operation, requires the mobilisation of local sources of power. The accumulation of problems has made the motivation of individuals and groups has become difficult. The delay of decisions and the consequent rushed decision making that followed has resulted in significant distrust, doubt and an unwillingness to become involved.

It may appear as a similar "restricting factor" if economic management does not integrate collectives and communities in their mutual interests. Historical and economic changes prove that the shrinkage of bureaucratic, and the growth of democratic elements in economic integration will create a better historical and economic environment for the development of local relations. In this case, creating local interest in creating local outcomes, stimulation of local initiatives, and the consideration of local resources so that they may play a more significant role in local policy (Ferge, 1986).

The essence of changes

At present, our task is to change the old institutional system that has proven ineffective during the past decades. We also must eliminate barriers created by the state. During this process, the relation between state and market must change. However the state must step back, or is forced to step back, at exactly that time when the traditional functions of state would be most important. Specifically the state's roles in crisis management, economic restructuring, management of crises regions, the institutional system for dealing with unemployment would be the most important tasks. Small countries must pay special attention, while destroying the old state monopolies, that they do not create new monopolies in their place.

In spite of all negative criticism, this process can still be defined as a positive one. During the political changes, the possibilities and the instruments for direct state intervention were reduced, creating favourable conditions for economic co-ordination. It must also be mentioned that in this process, the local governments also were made responsible for some functions that should be state functions. We could give many examples of this phenomenon, beginning with management and ending with pricing. In a system where the free choice of consumers is not assured, and there are no possibilities for replacement and bargaining etc. the role of monopolies and monopoly situations is obvious.

In these cases it is not necessarily a good solution to shift the largest burden of the conflicts to the level of the settlements, by referring to settlement autonomy, which is guaranteed by the law on local governments. This is true, even if the governments aim is to increase the level of efficiency, even down to the lowest levels of administration, and to force the consumer to pay for elementary and high quality services. Fixing prices locally, and making such decisions that cannot be carried out with local resources will cause serious conflicts between the local populations and the local governments. It is not capable of transferring, even with the best will, advances, efficiency, motivation- even in situations where resources are limited. It is not an accident that in 90 per cent of the developed world such price fixing is a function of the

central government in a way that no one can be forced to operate a business with losses (such as under state socialism). In economy of settlements, the relationship between state and local institutions has not yet been clarified. There is no agreement concerning the share and financing of public and private properties in the area of public services. The lack of motivation to become more efficient will result in a lack of settlement, inter settlement and regional forms of co-operation, that in other circumstances would guarantee favourable long term changes.

It is a fact that we are only at the beginning of the changes, but we must call attention to the importance of local and inter settlement relations, so that the pursuit of local autonomy does not again put the smaller settlements at a disadvantage because of the incomplete application of the new forms of co-operation. Both the relationship of autonomy and spatial organisation, and the mechanisms for distributing resources, reflect the fact that there is no consensus concerning redistribution and settlement or regional financing.

Local governments and their economic instruments

The changes in the relationship between the state and the market economy, and the economy left to its own devices and deprived of state influence, can create favourable conditions for restructuring the Hungarian economy, if economic motivation can be created. The law concerning local governments insures these conditions by giving the settlements and local communities autonomy, which is a stimulating factor. The end of hierarchy among settlements and of dependency, and the possibility to found civil organisations, are themselves stimulating forces. The increasing role of civil organisations strengthens grass roots initiatives. Specific groups within local society will organise themselves and function as independent units. They will also receive autonomous legitimating, and they will define themselves and seek out their role in settlement development, or smaller roles in larger regions. And through these activities they will also seek out the potential resources for settlement and regional development. The poor material conditions and the present economic situation do not make it possible to pursue the illusion that decentralisation and redistribution of resources and property rights (bringing new forms into the economic and social organisation) would make it possible for local governments to automatically fulfil in the short term, the tasks assigned to local governments. This is true even if the new economic and social model principally favours market co-ordination against bureaucratic co-ordination and a horizontal system instead of a vertical system of relations. This would enable the establishment and development of private and joint forms of ownership instead of central ownership. It would also establish the preference for open forms in order to avoid isolation, and the application of financial and monetary methods parallel to the decrease in the proportion of budgetary policy, and would give the green light to spontaneous development of opportunities to the disadvantage of social protectionism.

The complexity and difficulty of changes may be illustrated by the fact that the essence of changes (market, competition, autonomy, initiation) was suppressed not only during the forty years of central planning, but its suspicious appearance has deeply etched itself, since the crisis of 1873, not only into Hungarian economics, but into the country's institutional system as well (*László-László, 1992*). It has to do with the roots of economic attitudes that cannot handle business activity and competition as a neutral factor, and which produced a fetish like, unilateral view of the production

sector, and a prejudice against the business sector (trade and finance) where the consumers and citizens and later on their residences were pushed into the background in the relationship between employee and employer. It is evident and also proven by a great number of research projects, that the analysis of local relations and settlement interests is of great significance in those countries where the majority of factors and resources of production are bound to a certain place and is greatly differentiated by regions in regards to their effectiveness. At the same time we know that the regional mobility in our country, from the point of view of both capital and labour force, is strongly limited. These limits are much stronger than would be expected from the countries size and level of economic development. Nowadays we have to stress more than in previous years, while identifying the operational conditions of local governments and the resources of settlement and regional development, that the content and instrument system of settlement and regional development have to be based on local and regional interests and these have to connect to the decisions of central government through consensus (*Szelényi, 1967*). Currently the situation of settlements and their population holding and supporting capabilities have been greatly differentiated. The institutional and the economic conditions for private and community or social initiatives, have to be set up under these circumstances. At the same time we must consider that in this process of transition the economic instruments of local governments and the required finances for autonomy are still lacking. The economic attitude and policy, that would push the consequences of the decisions long term centralised economic management onto the lower levels of the previous hierarchy, cannot be supported. We also have to take the fact into account, that the development decisions that have facilitated economic development have produced contrary interests between the different players in the economy, extending to the settlement level. The reason for this is that the investments and the accumulation of capital necessarily restrict present consumption, whether as a result of individual restrictions, local voting or central decision. It is even more so in the case of those investments in regional development, particularly those made in the development of infrastructure, where the clash of interests come to the surface faster due to the differences among the different settlements. In some cases these clashes of interests may hinder development.

While the creation of local government owned property may motivate citizens to make donations for the sake of the future, the institutional and decision making structure has to be established even for this. The change in ownership, because of it is limited to one subject could itself serve as a guarantee, but because of the poor state of local government owned properties, contrary interests have a greater force.

Comments on the current problems of settlement management

Ever since the passage of the 1990 act on local government, the questions have not been answered: What should be the local functions of the central state, that require support from the centre (on a normative basis). And what are the voluntary tasks of local governments.

The normative supports given to local governments currently depends on the situation during the given fiscal year, and on the balance or deficit of the central budget. The local budget of the settlements depend over time on the passing of the central budget, and on parliament decisions' concerning other resources. This means,

from the settlement's point of view, that the majority of their income resources are uncertain and unstable. The allocation of resources and the offers of funding are postponed and the requirements for application are ambiguous. Concerning all this and also because of the high proportion of income coming from central sources, the settlements are not able to plan the dynamic growth of local income resources. This financial situation increases the number of settlements that will use the right of levying local taxes, even with the extremely high level of central taxes, even though doing so they will take the risk that it will cause local conflicts and that their administrative work will increase.

In the process of setting up the proportion of central and local financing, it is important to learn from the experiences of the developed countries, where: "The local authorities are usually responsible for those items that will cause only low spill over level in other areas – education serves the well being of local children, the libraries are used by local residents. Federal functions are those that will cause a significant spill over (for instance the significant medical inventions are advantageous for everybody, not only for those living near the laboratories)" (*Samuelson-Nordhaus*, 1991). While establishing an effective situation for financing we must bear in mind, how far a decision could be advantageous for local residents or for a settlement. In the course of working out the points of financing the effective operation should dominate and in the course of community choices, the motivation of the different decision making levels must also dominate. The full utilisation of the potential of production resources cannot be imagined without effectiveness and motivation. The provision and allocation of public utilities falls under the authority of local governments. The possibility for increasing resources would grow if the settlements would consider their local relationship, the economic sectors operating in their settlements, and of course their residents. As a consequence of the transition of social and economic processes, the relationships between companies are becoming stronger, sectoral isolation decreases, and the regional – territorial principle receives a greater weight in regulation, rather than sectoral isolation. In the past two years the structural composition of settlement finance was not as intensive as it should have been. the distribution process and its mechanism has preferred and continues to prefer mainly safe operations. In the process of distribution there was a resource reorganisation implemented that was characterised by a short term focus and considered the poverty of resources – even in the decisions made in 1992. From 1990, the year that the act on local governments was passed, we have changed from an expenses oriented economic management, to a resource oriented, or income oriented economy. Besides relatively high (the sixty percent) rate of the real redistribution related to the GDP, the low level of central government services, characteristic for the Hungarian economy, and the minimal stability of state functions, make the actual restructuring extremely difficult.

All these facts create unfavourable circumstances for local governments, local tasks and even for the relationship between central and local governments. As local governments are not provided even with the basic resources required for the fulfilment of their primary tasks, the formations in their system of incomes and expenditures. The income oriented system will loosen in practice, and the "hidden moneys" come to light, both on central and ministry level, especially to finance those fields where the bargaining position is stronger and public opinion creates greater pressure on local and

central governments. The pressure on local governments, is higher currently higher than it was before because since the passage of the law on local governments, the requirements for local governments are naturally stricter, and it became obvious that the paternalistic role of state had ceased.

At the same time it is a special problem that communal consumption has shown an almost equal decrease as residential consumption over the same period. Parallel to the increased demand for government services, there is a twenty to twenty-five percent decrease on investment on the settlement level, and it is probable that the investment possibilities will decrease by another ten percent by year 1992, compared to the previous year. These problems create an unfavourable situation for local governments, but also for the principle of local governments because the economic and financing shortages create state dependent local circumstances. In summary, we have experienced, that even considering the total potential of resources, the local governments have far more responsibilities than their instruments, finances and decision making authorities allow.

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32 THE ROLE OF PUBLIC ADMINISTRATION AND UNIVERSITIES IN REGIONAL DEVELOPMENT IN FINLAND

KAUKO SIPPONEN

The nature of the Finnish universities

Until the 1960s the Finnish universities were situated in the south and south-west of the country in the old university cities of Helsinki and Turku. In 1960 only six percent of our students studying in twelve institutions of university level were studying in institutions situated outside these two cities. Among scientists and researchers there was a widespread impression that the university institution was in no need of regional expansion.

In the space of two decades, however, the university institution did indeed see regional expansion to approximately its present extent. The growth occurred entirely outside the region surrounding the capital. This was part of the modernization of our society. Agrarian Finland developed into a modern industrialized nation. New technology and techniques were applied without prejudice, and a welfare state was built up to nordic standards. As a result of this the mechanism of public administration expanded, giving work to more and more age-groups of academically educated people. Belief in knowledge as a generator of production rested on foreign doctrines, but experience also demonstrated its significance as a prerequisite of a living national culture and identity.

There are at present twenty-one university-level institutions in Finland. There are universities comprising several faculties, that is universities in the basic sense of the word, and then there are institutions of university level for technical disciplines, commercial disciplines and for veterinary medicine. There are also four university-level institutions for artistic disciplines, the Sibelius Academy, the University for Industrial Design, the University for Theatre Arts and the University for Visual Arts. All of these are state universities.

My home university, the University of Tampere, is situated in the city of Tampere, 170 kilometres north of Helsinki. It was actually founded in Helsinki under the name of the Civic College, and in 1960, after a very close vote indeed, it was transferred to Tampere, where it soon became a fully-fledged university. Today there can surely be no reason to doubt the wisdom of that move. In Tampere there is also a university of technology.

The regional expansion of the university institution to Lapland north of the Arctic Circle naturally caused a rise in student numbers. The statistics for students who have actually taken a degree in these universities are as follows:

Table 32.1

Number of university students

Year	All universities	University of Tampere
1950	15,000	700
1960	25,000	900
1970	61,000	6,800
1980	84,000	8,600
1990	114,000	11,000
1992	122,000	11,800

The annual intake of new students is limited to 18,000. In 1950 women students accounted for 35 per cent of all those enrolled, and nowadays this has increased to 52 per cent.

The Finnish university network is regionally highly comprehensive. Mainland Finland comprises 18 provinces, and practically every one of these has either a university of its own or at least an outpost of a university. The education offered is organized by field into degree programmes leading to the first (master's) degree. Each university is further required to carry out free research and scientific postgraduate education, and to promote scientific learning. In this respect Finland differs from Norway, where the regional universities give largely basic education, and from the other Nordic countries, where research resources are often channelled to the provinces by means, for example, of research projects.

I already mentioned that the university institution is valued among the intellectual resources of a small nation. It is specifically stated in the rules of the University of Helsinki that the university educated young people to serve fatherland and humanity.

Reasons for the expansion of the university institution

The purpose of the expansion was to offer to a greater part of the age group the opportunity to study at a university, to improve regional balance, to change the distribution of students in the direction of the technical disciplines and natural sciences, and to create better facilities for the conduct of research.

In 1966 a law was made for the further development of the universities which directed students towards different fields, set goals for student numbers and premises and ensured minimal funding. Simultaneously statutes were made for the founding of four universities.

Thus the universities were well to the fore in the overall drive for regional development, although the law on the development of the universities did not include any specific regional goals. The law, however, made possible the founding and development of new universities. The current legislation of 1986 requires that the Council of State approve a plan for the further development of the universities. This should, moreover, include a regional review.

Over the period 1981-1990 the funds made available to the universities grew relatively more than did the GNP, in real terms as much as 53 per cent. Such an

infusion is proof of the confidence placed in the activities of the universities and the belief that the universities are of international standard.

Certain problems have remained: the longer time taken to qualify, the poorly organized education of researchers, the rigidity of the planning system, the insufficiency of inter-university cooperation etc.

Regional development policy and regional administration

The regional policy legislation (No 1168/88) in force until the end of the current year means by regional policy the exercise of public power by which regional development is balanced, and the development of the different parts of the country is furthered. One of the goals of regional policy is to ensure equally throughout the country that the population in every area can obtain up-to-date professional skills and expertise. The goals of regional policy are achieved by fostering the development of technology and its deployment, and likewise the promotion of university-level teaching, other education and research in the area.

Region-based development policy is very common in Europe, and it is also extensively practiced in the nordic countries, where the climate is hard and distances great. The economic and cultural development of the regions, and also the internationalization of administration in the regions has begun to be the focus of special emphasis in the European Union, to which Finland has applied for membership. The Council of Europe has further adopted among others the Bordeaux Declaration of 1978, the main point of which reads as follows: "As an essential component of the state, the region is a fundamental element of a country's wealth. It testifies to its cultural diversity. It stimulates its economic development."

Regionalism is raising its head not only in economic issues, but also in cultural matters. Developments within Europe may strengthen provinces, counties and individual municipalities. We are thus about to discover a new, provincial Europe.

Regionalism feeds of itself research on regional development, which, in turn, can give support to the ideology of regional development and to concrete measures. We are clearly moving towards a model of society in which problem-solving at regional level is of greater significance than hitherto. The developmental processes are bound to time and place, and are to be understood in the light of their local uniqueness. Regionalism is seen as the opposite of centralized development directed from above.

The present constitution of Finland allows, but does not demand, the establishment of autonomous regional bodies. Article 51, section 2 of the constitutional Form of Government Act of 1919 states as follows: "The manner and extent of application of local autonomy to more extensive districts than municipalities shall be regulated by law."

Repeated efforts to create such a law have so far failed. No units for more extensive districts – excluding the Åland Islands – have ever been created. There are, of course, many reasons for this failure. Independent Finland has relied on centralism for internal strength.

For purposes of state administration at the regional level, Finland is divided into twelve counties headed by a Governor appointed by the President of Finland. Each county has a separate County Administration Board with general administrative

authority. This authority extends mainly to developmental planning, police, supervision of municipalities, execution of sentences, fire and rescue, environment, social affairs and health, education and culture.

The regional state administration also includes many separate district state administration authorities, which mostly conform to the areas of county administration. They cover, for example defence, taxation, agriculture, forestry, road and waterway construction, the promotion of industry and the protection of labour.

Mainly because there is no regional self-government, it has been necessary since the end of the twenties to establish inter-municipal cooperation in different forms, under both public and private law. Under these arrangements two or more municipalities establish joint authorities, such as federations of municipalities. These are often created by statute to take care of municipal services.

Altogether, there are about 200 federations working on a province/county basis. They are by far the most important form of cooperation between the municipalities. They employ 70,000 people.

At regional level the federations of municipalities are responsible for such functions as regional planning, central and regional hospitals, mental hospitals and tuberculosis sanatoria, institutions for the treatment of alcoholism, vocational schools and family counselling centres. Most federations provide statutory social, medical and educational services. In all the provinces one federation, called a provincial association, works as an interest group to protect and promote provincial interests.

Supreme power in the municipal federations is exercised by a council, chosen by the councils of the participating municipalities. There is also an executive board, together with various committees and appointed officials. They reflect the political structure in the province.

The federations are not entitled to levy taxes. Costs are covered by the proportionate contributions of the municipalities involved, together with state grants and charges for services.

Reform in regional policy and reform in regional administration

The Bill (No 99/1993) put before the Parliament states that the traditional means of regional policy such as increasing public sector services, agricultural policy and supporting investment by firms, are becoming less efficacious.

From the point of view of the development areas the situation is indeed problematic, since as the same time as Europe opens up and becomes more demanding as to international competition, this is directed at the industrial products of the peripheral areas. The shift to intensive growth brings to the fore new production factors, notably those of know-how. The importance of the traditional relative benefits of the development areas (abundance of labour, low salary levels, raw materials) is either gone, or is receding. The ingredients for new regional policy are being sought in know-how, new technology, the infrastructure of the information society and local initiative.

The new goals set for regional policy include, in addition to balanced regional development, also the promotion of regional initiative. The proposal corresponds to the terms of the agreement made on the European Economic Space (EES) as regards the conduct of national regional policy, however, the implications of possible EU membership on regional policy have also been taken into account.

The economic recession has limited the scope of regional policy. The regional direction of economic growth is not presently taking effect as there are only few expanding fields of activity.

The responsibility for regional development has hitherto rested with the officials of central government and regional state administration. The prerequisite for regional initiative, however, is that responsibility for regional development be transferred to the region's own executive bodies.

It is now proposed that provincial associations already responsible for physical regional planning be entrusted with the overall development measures and policy of the region hitherto dealt with by the County Administration Board. Under the reforms in regional development legislation the development functions and strategic planning would be for the provincial associations. When engaging in the implementation of regional development programmes the provincial associations would have at their disposal the regional development funds of the Ministry of the Interior. The district state administration authorities would have to request from the provincial association a statement on their plans and decisions having a significant effect on the development of the region. As the authorities responsible for regional development the provincial associations would take care of the international matters pertaining to their functions.

The provincial association would take care of the general direction in regional policy, and also of the preparation of regional development programmes, their implementation and monitoring. It would further attend together to the measures taken by various officials. As in some provinces there is as yet no provincial union, the county administration board would for the moment take care of regional policy as before.

The solution here presented means that no new mechanisms of self-government are to be set up in the provinces, but rather that the provincial associations already operational in the regions are entrusted with new functions. Insofar as the municipal federations produce the basic services for citizens, the assignation of regional strategic planning to one form of the municipal federations, the provincial association, is natural.

It is thus a case for strengthening municipal self-government. The provincial associations are in the hands of councillors chosen by the municipal councils, and are accountable for their activities to the municipalities. The trend toward regional self-government along Western European lines may formally be very modest, but it is ideologically meaningful. No further progress could be made along this road at this time because of the fear of new taxation and new administrative bureaucracy. At any rate, the need to create a regional system whose main function is to serve as a political decision-making organ and not only as an administrative organization is becoming more and more evident.

The universities have their tasks in regional development policy, whether this should be under old or new legislation. The county governor of the county of Uusimaa (Helsinki) writes in the programme of measures to further develop the universities of Uusimaa that the universities of Uusimaa also function regionally as units serving both Uusimaa and other areas. In publishing the programme of activities the county administration was desirous of initiating and promoting new, in depth cooperation between the universities, the county government and the municipalities. According to the programme the new forms of activity and service functions of the universities in the 1980s have strengthened their connections to the surrounding environment. The

universities are seen to be responsible for their part for the further development of their own field of action.

The Pirkanmaa provincial association's (Tampere) provincial plan for the period 1992–2002 indicated that the role of the regions will be emphasized in the European theatre of action. The initiative of the regions is needed. The universities support the business life of the province, and also other societal and cultural development. They are a significant resource of which the regions should make greater use.

The Ministry of Education in its memorandum produced at the beginning of 1993 works on the premiss that the basic model of decentralized university is adhered to even in times of economic recession. This was confirmed by the Prime Minister.

The plan for the further development of the universities 1987–1992 approved by the Council of State included among its aims that the universities should function as a centre of innovation for the regions, and that they should become open to the rest of society. Within the council of universities a new division for liaison with society has been set up, whose mission it is to put forward measures to strengthen the role of the universities as a part of the national system of innovation.

In the regions there is still the conception that the universities are to transfer resources in science, skills and attitudes to the service of the regions. Educated academic labour will remain within the sphere of influence of the university. Postgraduate education, further education and re-education will be undertaken in many fields. Research work will focus on the immediate environment and its problems, service activities will be beneficial to the neighbouring areas. Cultural and recreational activity will become more lively and vigorous. The university will consolidate its regional identity and strengthen societal integration. Internationalization will grow in many ways. The regions of Finland still compete for new universities and once regional expansion has reached its limits they will support and defend the universities and make them more versatile.

The role of the universities at the end of the 1990s

The economic recession has caused exceptions to be made in the legislation on the development of the universities, and for the period 1993–1995 their resources are to be cut by some 20 per cent. The universities are being treated like any other government department, and they are not understood to have any strategic significance. On the other hand they have considerable freedom as to how those resources are used. The funds for research and development in 1989 were some 1.8 per cent of the GNP, and the target of 2.7 per cent will hardly be reached in the foreseeable future.

Nevertheless, society currently expects from the universities new ideas on development and innovations, rapid reactions to the challenges of the time although the activity of the universities is a long-term process.

The assessment group for the University of Helsinki has stated that ties to the rest of society should be strengthened. At present, however, the university is serving society by taking a critical attitude to it and the phenomena occurring in society.

The overall assessment for the University of Jyväskylä stresses the contribution of the university in the European and worldwide university system. The region feels that the university is important. The interest in the university and the expectations of it are to be seen in the regional plans.

It would appear the universities see themselves as serving society and the region if they function as reformers of culture and if they promote national self-understanding through a critical analysis of society. The universities are very seldom represented in the bodies which manage municipal and business affairs, but are well represented in bodies of expertise. As Chancellor I am involved in the administration of a centre of technology, I plan the co-operation for the "Mare Balticum" project initiated by the city authorities, and I participate in the shaping of the regional strategy of the Pirkanmaa provincial association.

Today the development of know-how is crucial, technology should be transferred, the innovative powers of the firms rise higher etc. The universities are taking part in this development, they are on their way to becoming a multiversity. In Finland the universities have set up new units in order to start up postgraduate and further education, and in order to set in motion the Open University. They have also taken upon themselves the education of the unemployed and the self-employed. Individuals are taken on board to take charge of research, to act as information officers, to disseminate knowledge about research.

The universities conduct much commissioned research for the municipalities and firms, notably in medical science, technology and economics. They provide advisory services and consulting services. The science-park application is perhaps the extreme example. There are in our country some ten centres or villages of technology in which the universities are involved. To provide a resource and infrastructure for the transfer and successful commercialization of knowledge within an environment of mutual support and encouragement, the universities participate in technopolies. The University of Turku, for example, together with the city authorities and numerous firms have created a technology centre (Data City, Bio City, and Electro City), with a surface area of almost 100,000 square metres.

In the 1980s the fee-paying services of the universities quadrupled and in 1990 they were some 17 per cent of the universities' salaries and overheads. This was evenly distributed over the fee-paying services in medical science, economic research and further education.

The universities also make passive achievements by their mere existence in the areas where they are located. The existence and activity of the university, the university of technology, the students and the student organizations 1985 gave rise to a total of 7,000 jobs, 2,900 of these directly and 4,100 indirectly in Tampere and the surrounding municipalities. Central and local government thus obtained considerable tax revenue.

The university recruits its students to a great extent from the surrounding region despite the fact that its catchment area is traditionally the entire country. Those who take their degree at the university frequently remain in the region to work. Of those who began their studies at the University of Oulu more than one third were natives of the counties of Oulu and Lapland, and two thirds of those qualifying found their first jobs in that same area. However, from many areas there is a braindrain in the direction of the county of Uusimaa, where almost one half of graduates live. Of the age cohorts living in the province a somewhat greater proportion (one third) succeeded in gaining a place at university whereas in other provinces the corresponding figure is 20-25 per cent.

In keeping with innovation-oriented regional thinking the universities play a central role in the systems which spread innovation. They are a medium in the shift from industrial society to information society. *Arto Haveri* (1988), however, points out the difficulties which ensue when help in the solution of regional problems is sought from university research and development:

- functions aimed at the surrounding area are only one part, and sometimes a marginal part of the mission of the universities in society, and they are not always seen as being very important,
- tasks may expand into new functions without new resources,
- researchers become isolated and contacts with the environment become haphazard,
- the existing forms of joint activity do not adequately serve users' purposes and,
- the international scientific community is, after all, a more significant environment for researchers.

Osmo Lampinen (1992) points out that the use to which research in the social sciences is put has traditionally been dominated by the model of instrumental utilization. It has been assumed that scientific research could provide straightforward answers to questions of public administration, to take an example. In practice this is particularly problematic and there is a need for a system to mediate the knowledge gained in research. Support should be given to those measures which are based on a dialogue in which politics, administration and the research community are equal participants.

Significant openings and speeches require time to come maturity, a period of incubation. The writer *Kaari Utrio* responded in a very interesting manner to a question put to her (*Iltsanommat*, an evening paper, 9 October 1993) as to whether the voice and the thoughts of the writer are visible in society. Since the Second World War the present economic recession is the greatest shared experience the Finnish nation has faced. It will take years for an in-depth analysis to mature. This catastrophe will be analyzed only in the next century.

The enormous growth of the universities between 1960 and 1970 was part of the modernization of Finnish society. Faster than elsewhere in Europe the country changed from an agrarian society into a modern industrial society. It built up a nordic education and welfare state which needed thousands of young graduates.

In the course of this change the universities, like other institutions, have woken up to assess their own activities. In the natural sciences in particular the necessary critical size has been attained in only few units. In many universities there are institutes in miniature and the universities are limited in their field. This inevitably leads to the consideration of the feasibility of combining small units and departments and of also combining scientific postgraduate education, seminars and doctoral programmes by field. The small-time must be relinquished. Without forgetting the regional significance of the universities concentration in the coming years will focus on the further development of quality in the basic functions of the universities, namely research and teaching.

My successor, the county governor of the county of Central Finland, *Kalevi Kivistö* (1993), writes that the significance of the universities and, in a wider sense, of education and culture in the development strategy of Finnish society is recognized and

acknowledged. However, the situation has changed, because what we now need is not a development strategy but a survival strategy.

Government policy and conception of international competitiveness rests on the ability to perform, to sell products on international markets, and the focus is on cutting back in public spending, and also university spending, which is thought to be a burden on this competitiveness. Kivistö refers to the thoughts of U.S. minister for labour, Robert Reich, that public power should revitalize the economy by underlining the basic ability to compete by means, for example, of improving the infrastructure and upgrading the standard of work and know-how, the education system.

Kivistö takes the view that the universities for their part serve to improve the prerequisites of social and productivity improvement. Education and research, the level of science and innovations are part of a survival strategy. It is conservative in the extreme to take a narrow view of education and public services as a drain on resources which merely places a burden on the development of productivity, and which should therefore be cut.

The further development of the universities is a long-term undertaking. Despite all attempts it may be that we are, after all, only at the incipient stages of the debate on the universities and the areas which surround them.

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33 URBAN POLICY AT CROSSROADS: THE END OF THE SWEDISH MODEL?

ABDUL KHAKEE

In 1991 the then Social Democratic Government abandoned the post-war policy of full employment and the continuing development of the welfare state. Earlier decisions in this direction were of temporary character and forced upon as a result of recessions. The 1991 decision was a definite break in an ideology which had been the driving force in the development of the Swedish welfare state which had earned international acclamation.

The Conservative Party-led government which came into power a year later¹ carried forward this new change in policy at even rapid pace, putting forward two main arguments for dismantling the welfare state:

- making the Swedish social policy more uniform with the EU countries²,
- giving top priority to reducing the rate of inflation and the budget deficit.

The current development in Sweden has received considerable attention both at home and abroad. It is variously described as the “demise of the Swedish welfare model”, “end of the middle way policy between dictatorial communism on the one hand and brutal capitalism on the other”, “abandonment of the politics of compromise and belief in social engineering”. Current changes affect many facets of the Swedish post-war development policies – labour market, social welfare, education, physical infrastructure, urban and regional development. In this paper, I limit the discussion to the change in the urban policy.

The paper is divided into five sections besides this introductory one. In the second section, I briefly describe the main tenets of the urban policy. In the following two sections I discuss criticism and counter-criticism of this policy and the alternative solutions which have been put forward to reorganise urban services. The theoretical premises for public management of public works and social services are discussed in the fifth section. In the concluding section, I present some lessons for countries like Hungary which are in the process of establishing a new framework for public works and social services.

Tenets of the Swedish urban policy

A major premise of the Swedish urban policy has been the provision of a wide variety of technical, social, educational and recreational services to all citizens. This has been made possible through the municipal governments’ right to levy income tax, a

nationally administered equitable tax and loan systems, municipal monopoly over land use and an elaborate system of state transferences to municipalities and households. *Table 33.1* presents some of the important aspects of the urban policy. There has been a very strong element of egalitarianism in this policy which is evident by the general prosperity enjoyed by the citizens of every Swedish municipality.

Table 33.1

Important aspects of the urban policy

AREA	POLICY MEASURES
Housing	Municipally owned housing companies set a norm for rents for the housing market. State loans and rent subsidies to keep housing costs low. Municipal monopoly over the distribution of public housing. Legal restrictions on market competition for private housing exchange agencies.
Land use	Extensive public rights to acquire land for development. Building only on land leased or purchased from municipal authorities.
Energy distribution	Municipal monopoly. Cost-pricing.
Social welfare	State regulated municipal monopoly over the provision of centers for child-care, the care of elderly and other needy groups.
Health care ³	Municipal responsibility for general health protection.
Water supply/Sewage & Waste disposal	Municipal monopoly. Cost-price charges.
Education	Public comprehensive and grammar schools. (Few private schools.) Municipal adult education.
Transportation	Local and regional roads. ⁴ Municipal monopoly over local transportation. Restrictions on taxi enterprises..
Recreation	Public libraries, sport premises, parks and forest reserves. Municipally managed theatres, musical and other cultural facilities.

The above table does not do justice to the vast array of public services and benefits (extending from free school meals to subsidised taxi for old and disabled) which the local governments provide. Many of these services were developed at the local level through the state intervention in local government in order to implement national goals. The creation of an extensive local public sector was accompanied by a large number of special legislations, statutory requirements and standards for monitoring and controlling local provision of public services. Moreover, an elaborate system of state subsidies to local governments was established. The state control was extended to between 70 and 80 per cent of the local government activities (*Khakee, 1983*).

Serious doubts were raised during the 1980s about the state control over urban development. Municipaliteis objected against national planning and building standards

and against statutory regulations regarding the provision of public services. The Local Government Act has been amended twice in the last 15 years in order to provide greater freedom with regard to the organization of municipal government and provision of public services. At the same time, the financial responsibility for the local public sector has been increasingly transferred from the central government to the municipal governments.

Critique and counter-critique

The public sector has been subjected to massive critique since the late 1970s. Thatcherism represents perhaps the most consistent ideological attack on the welfare state (Thornley, 1991). Reaganism was less articulated than Thatcherism but it also advocated decentralization and above all privatization of public services. Much of the Swedish critique has been inspired by these two trends of thought, especially Thatcherism.

The critics of the Swedish welfare state is a mixed crowd including extreme right wing groups gathered around the Swedish employers' organisation; SAF and the publication house; Timbro, the three right wing parties in the Swedish parliament, many of the leading national economists and other less well-known figures. Their critique can be summarised under four captions:

- inefficiency of the public sector,
- its bureaucratic nature,
- undemocratic aspects of the public sector,
- the evils of egalitarianism.

In the following text, I shall briefly present some aspects of this critique and the arguments which have been put forward against this critique.

Inefficiency of the public sector

Most of the arguments recounting the inefficiency of the public sector are well-known from the international debate. The Swedish critics of the public sector point out that the replacement of market criteria by political ones has led to excessive and wrong use of resources. Sweden has become an "interest-groups-economy" where various groups compete with each other to get greater and greater share of the welfare services. The public sector is described as a "burden" to the rest of the economy. There is an increasing number of Swedish "neo-physiocrats" who talk in terms of "sustaining" and "resource-draining" activities in the society. All or nearly all public activities belong to the latter category. The extreme right wing critics contend that the current size of the public sector, about 50 per cent of the GNP, is at the root of the current economic crisis in the country.⁵ Zetterberg (1992) presents a vision of Sweden where the level of taxation is about 10 per cent of the GNP but where social welfare is no longer a public responsibility. Charitable organizations, private mēcenater and others would be responsible for many of the services which are currently managed by the local and central government.

Counter-critics point out that market solutions are not always effective and efficient. For example, health and hospital services in the USA cost about 12 per cent of the GNP, in Sweden about 9 per cent. At the same time many millions of US citizens are

without any proper medical care whereas in Sweden medical services are provided to all the citizens. There are numerous instances where US doctors carry out medical or surgical treatment which is less medically motivated but means private economic gains.

Forsman (1984) presents many examples of the profitability of the public sector. Some of the most expansive Swedish industries e.g. Ericsson, Astra, Asea (now Asea-Brown Boveri) have expanded as a result of close interplay with the public sector. He also points out to the current and potential export value of the public services. For example, there is an increasing international demand of the Swedish know-how regarding child-care, the care of elderly, traffic planning, environmental protection, etc.

Bureaucratic nature of the public sector

In none other area was Thatcherism as articulated as in its critique of public bureaucracy. The Swedish critics have followed the Thatcherist line when they point out to the excessive size of bureaucracy, its remote position in relation to the public, its exclusive reliance on administrative rules, its lack of sensitivity and the Parkinsonian ailments of bureaucracy. There are some specific Swedish aspects of this critique.

The day to day public administration is carried out by national boards or agencies which are "independent" of the ministries who are only responsible for policy making. This gives a considerable amount of freedom to the public bureaucracy. Critics mean that the bureaucracy has developed its own code of conduct and represents a major factor of power in the Swedish society. Decreasing the size and strength of the bureaucracy is an often repeated demand from the critics of the public sector.

Another very specific aspect of the Swedish public administration is the existence of a very large number of statutory requirements and centrally determined standards and norms. Bureaucrats tend to adhere very strictly to these regulations without taking into consideration the immediate human and unique aspects which characterise each decision situation. Newspapers often carry stories where children are compulsorily separated from their parents because social assistants consider that the family situation is not congenial to the upbringing of the children.

In the current economic crisis, it seems likely that a large scale reduction of the bureaucracy is going to take place. Counter-critics point out that such a drastic reduction would lead to a very severe loss of competence. Decisions would become more arbitrary and especially in small communities, standards and norms shall be replaced by discretionary decisions. Decision making would become both parochial and partial. Moreover, the reduction of the public sector would specially hurt female employment and reconstitute sexual barriers.⁶

Undemocratic aspects of the public sector

The development of the Swedish welfare state is a result of a broad consensus that existed until the end of 1970s. Since then the neo-liberal and public choice exponents have questioned the basic assumption of the majority rule. They point out that a majority can make wrong decisions and such decisions can incur substantial harm not only to the minority but to the whole society. The Swedish state has been able to

establish the welfare state through a large number of far-reaching regulations which have been detrimental for economic and social development. The current economic crisis is the product of this development (Zetterberg, 1992).

According to the critics, the public sector has invaded every walk of life. A common expression used in this context is that "state takes care of the individual from the cradle to the coffin". This has made many people passive and completely dependent on the public sector. An often repeated story deals with the case of citizens taking over some public functions. For example, in a little community called Börje in the Municipality of Uppsala, the citizens put down nearly 2,200 hours to repair the school. They did this in face of a municipal decision to close the school. This and other similar examples are put forward to show that a genuine citizen participation is hindered as long as the state is responsible for all the collective functions. Exaggerated blessings of the "civil society" are put forward in this context. Transferring public functions to the civil society is considered to be a major step in developing genuine democracy.

The public choice advocates also point out that the individual elector is not really interested in the public good but what he or she can personally get out of the public decisions. Moreover, the politicians are more interested in personal gains in form of power, status and even pecuniary returns rather than serving the public. The entire political process thus becomes very short-sighted and is based on personal gains.

Counter-critics imply that those who support the idea of citizen participation and civil society do so with economic gains in mind rather than democratic values. They contend that the belief in voluntary efforts is often misleading since many such efforts are made under external pressure. The citizens of Börje might not have been willing to repair the school if the threat of school closure had been absent. Recent research shows that the transference of responsibility to take care of the aged, sick and infants is often destructive for family ties and social relationships. Many persons, often women, are worn off in their task of looking after those in need (Jordan, 1992).

The public choice contentions about the total absence of altruism has been recently challenged by various empirical findings. Lewin (1988) shows that the public choice theories concerning the voters' and the politicians' behaviour can not be proved empirically. In fact, he presents several electoral surveys which show that electors vote with the common good in mind rather than personal returns. In the same way, empirical studies dismiss the contention that only personal gains dictate politicians' behaviour.

The evils of egalitarianism

A conspicuous feature of the Swedish society is the almost absence of elitism and class consciousness. Many of the conservative critics imply that egalitarianism is destructive of personal impetus to struggle for higher economic and social achievements. The Swedish public transference system is regarded as a contributing factor to the lack of labour incentive, high level of sickness absence from workplaces and a general absence of self-reliance among the population. The critics of the welfare state go so far as to point out that since people have different tastes for consumer goods, there should be similar differences in the provision of public services. For example, if a high income person demands better hospital services, he or she should be eligible for that.

According to counter-critics most of the above contentions are hearsays rather than based on empirical evidence. In fact the Swedish labour force shows very many luth-

ran values including "arbeitsmoralismus". Accessibility to public services regardless of economic conditions and location of residence has been an important contributing factor to the high level of economic growth and a high level of material standard which Sweden has enjoyed during the entire postwar period. The present economic crisis is more a result of the uncontrolled speculations in the property market and careless lending policies of the Swedish banks rather than on the high welfare standard of the population.

Alternative solutions to reorganise urban services

The issue of combining adequate democratic control and efficient production of public services has been central in a large number of local government reforms. The two municipal merger reforms – in 1952 and 1974 – which resulted in a drastic reduction of the number of municipalities – from over 2,500 to current 286 – were efforts to increase the population base in order to achieve greater production efficiency at the same time ensure maximum possible accessibility. It was, however, during the late 1980s that market orientation gained increasing attention in municipal service production (Losman-Löfving, 1992).

Various measures have been put forward in order to create market-like arrangements within the municipal government in order to achieve greater internal competition between municipal service units and introduce new management ideals. The most commonly used methods are management by objectives and the conversion of municipal service units into "performer units" which eventually compete with each other (Montin, 1993; Solli, 1991).

These ideas have been further developed in two other approaches: client selection and orderer-performer organisation (Sjöström, 1992). I shall briefly discuss these two approaches which pave way towards privatization and also present areas where outright privatization has been introduced or is in the process of introduction.

Client selection

Economists have often advocated this method in order to achieve greater consumer sovereignty. Instead of subsidising production, direct subsidies could be granted to consumers who can then select the producer of their own choice.

Client selection has been up to now mostly applied in three areas: child care, schools and the care of elderly. In the case of the care of elderly, the clients get checks or coupons in order to buy the desired services. In case schools and child care, municipal governments allocate "school money" or "child care money" which allow parents to choose an appropriate institution.

By the beginning of 1993, only 7 municipalities had introduced client selection, 21 planned to do so during 1993 and another four planned to introduce during 1994.

Orderer-performer organization

This model has received considerable attention and has been subject of a controversial public debate in Sweden. A major idea behind this model is to separate the role of the political bodies (which are assigned the tasks of the orderer) and the service producing units (which become the performer units). Different approaches have been developed

by municipalities which have applied this model. In some municipalities, various sectorial boards (for education, child care, recreation, etc) have been assigned the role of orderer. In other municipalities, the ordering function has been assigned to committees at the submunicipal level. These committees are responsible for a more comprehensive coverage of services. In both these approaches, the overall financial responsibility is in the hands of the municipal executive committee which allots resources to the ordering committees. At the same time, the municipalities have retained conventional boards which deal with the issues of public control or for services which are not open to the market.

At the beginning of 1993, 17 municipalities have introduced the model. Another 12 municipalities plan to introduce the model during 1993 and 5 more during 1994. 25 municipalities have decided to discontinue efforts to introduce the model. Population size seems to be a restriction since only 7 per cent of the municipalities with population under 30,000 have introduced the model. The others have a population over 30,000.⁷ In some cases, producer competition is limited to municipalities' own producer units, in others, such competition is extended to private producers. The latter is specially the case with public works.

The major objective of the orderer-performer model is to detach production from political control which strides against the Local Government Act (see, for example, *Montin*, 1993 about the political aspects related to the application of this model). Since the model is perceived as an important step towards privatization, it might be appropriate to present very briefly the results of studies evaluating the application of the model so far. The studies were based on interviews with politicians and local government officials in the municipalities which have applied this model. These evaluations show the following:

- A majority of the politicians feel that the role of the municipal council has weakened. Politicians should exercise control over the production and distribution of services. Politicians turned orderers is undemocratic. It is municipal citizens who are the real orderers.⁸
- A majority of politicians feel that they get less and less information about municipal activities.
- The model has led to a strong power concentration among a handful full-time municipal councillors and top local government officials. In most cases the chiefs of the production units are also experts at the disposal of political boards.
- Unpopular decisions are often balled between results units, ordering boards and the municipal council which has the ultimate responsibility for financial decisions.
- Producer units, especially in social and educational fields, are completely dependent on the ordering organization.
- Until now the application of the orderer-performer model has been characterised by a lack of any real competition in the absence of a broad range of supply alternatives.
- Bureaucracy has not decreased. Nor have the decision process been simplified. There is an increased reliance on external consultants.
- A majority of the performer units felt that they became too much dependent on the ordering officials who were often ignorant about their new functions.
- The model has created an absurd situation where the municipal authorities make contract with their own offices. It is an artificial system.⁹

Privatization

The question about the privatization of public activities has been a major part in the debate about the reorganization of the public sector. While there is as yet no national or local government decision for "selling out" the public amenities, several propositions to this effect are under consideration. For example, a recent public commission report proposes that the municipal monopoly over the distribution of electricity should be abolished. The same report proposes that the state-owned energy company, Vattenfall should be privatized.¹⁰ The following table presents some of the proposals for privatization in certain public activities.

Table 33.2

Proposed privatization in selected areas

AREA	PRIVATIZATION PROPOSALS
Housing	Market adjustment of rents. Public housing no longer rent-leading. Private housing agencies allowed to compete with the public ones.
Land use	Free competition for building loans. New rules for compulsory competitive tendering. Reduction in the detailed control over land use.
Energy distribution	Abolition of municipal distribution monopoly. Proposal to separate production and distribution of district heating.
Social welfare	Abolishment of detailed regulations for child care and care of elderly. Private initiatives provided with the same conditions as public ones. Profit making encouraged.
Health care	Private contracting of health-care centers and other medical services. Freedom to establish private hospitals.
Water supply/sewage and waste disposal	Private contracting. Market prices if under public control. ¹¹
Education	Improved public subsidies to private schools. School cheques to parents in order to allow freedom of choice. Encouragement of specialization.
Transportation	Market pricing for taxis. Free establishment of bus service. Market competition in other areas of transportation.
Recreation	Private contracting and even outright privatization of sport and cultural facilities.

While waiting for all these proposals to be accepted by the parliament, many municipalities have been carrying out some privatization – contracting out both social services as well as public works. A recent study by *Fölster et al.* (1993) examines 96 cases of such privatization. About one half of these privatization initiatives have failed in the sense that the costs have increased by more than 5 per cent. The failure has been

most noticeable with regards to the privatization of social services. Private contracting has been most successful in the case of public works. *Fölster's* and other relevant studies present several reasons for these failures:

- Municipal authorities have been careless in making contracts and have not paid enough attention the fact that the production of such services by municipalities themselves is often cheaper.
- There are built-in restrictions in contracting out "soft" services.
- Protracted municipal monopoly has made both local government officials and politicians very uncertain about buying services externally.
- Politicians are unwilling to make contracts which are three or more years long.¹²
- Private companies for certain services (e. g. school meals, cleaning servies) are small and cannot individually take over the entire municipal production.

Theoretical premises of public management

The case of two multinational companies negotiating with municipalities to take over water supply stirred a debate among local government officials and politicians about the appropriateness of such a take over. What is significant about this case and other cases of increasing market orientation in the production and distribution of public services is the absence of a more general debate about why should these services should be privatised. Put it in another way, there has been very little discussion on why was public management necessary in the first place.

In economic literature, two major reasons are put forward for public control: market failures and welfare redistribution.¹³ In this section I shall very briefly discuss the first reason since the issue of market failures is accepted even by the most ardent critics of the public sector (*Friedman-Friedman*, 1980). The issue of welfare distribution and equality is value-loaded and the extent of equality in a society depends on many factors including historical development and cultural tradition.

The first and foremost case of market failures is that some servies represent "pure" public goods for which both the "exclusion principle" and the "joint provision criteria" can be applied. Judicial system and other services to protect citizens are examples of such goods. Can not the same principles be applied to fire-fighting services or the provision of pure drinking water to all the citizens?

Certain market transactions result in either positive or negative external effects which are not included in the market prices. Purchase price of cars does not include environmental and other effects. Unplanned use of urban land often leads to protracted impact on the allocation of different economic and social activities. Another example of negative externalities is related to certain aspects of the health services e g preventive medical care which hinder occurence and spread of contagious diseases. Positive external effects are often related to public investments in culture and recreation. No comprehensive survey of negative and positive external effects related to urban amenities has as yet been carried out in Sweden.

The third case of market failures is the emergence of natural monopoly characterised by increasing returns to scale. Often cited examples of areas where natural monopoly occurs are telefon services, postal system, production and distribution of electricity, railways and other forms of public transportation. In the current development in Sweden, there is a real danger that public monopoly is replaced by private monopoly.

Another, but often overlooked example of market failure is related to imperfect, inaccurate or even suspect information. The only way to overcome this type of market failure is to ensure adequate and correct information to the consumers through public regulations or direct public control. Substantial imperfections are associated with the provision of many services especially those in the area of education, culture and social welfare.

Finally, it may happen that certain markets simply do not exist on account of asymmetrical dissemination of information or where the interests of specific minorities or future generations are not taken into account. Ecological consideration, historical preservation and certain aspects of social welfare represent this type of market failure.

Lessons from the Swedish development

The Social Democrats have always justified the Swedish Welfare model as an alternative to inhuman Soviet communism on the one hand and the brutal capitalism on the other. With the demise of Soviet communism, there is an obvious crisis of legitimacy for the Swedish model. However, the development following Reaganism in the USA and Thatcherism in Great Britain shows that the Swedish model still has considerable amount of credibility. The result of these two neoconservative ideologies has been a tremendous increase in poverty in the USA and Great Britain. The social contract which established the welfare society is broken. Living conditions in many of the US cities and even British cities are appalling. Crime, drug abuse and disruption of families have increased tremendously. Some estimates show that the cost of countering crime and drug abuse is higher than the costs of providing basic social security to all US citizens. A central issue in the current reorganization of the public sector in Hungary and other Eastern European countries ought to be the social costs involved in the introduction of large-scale market solutions.

The Swedish efforts towards privatization of public works and social and educational services show an obvious need to undertake a priori and careful consideration of market failures involved in privatizing provision of public works and social services. An absence of such an examination has resulted in substituting public monopolies by a private ones or a rapid increase in the number of standards by regulatory bodies in order to monitor and control private provision of public services.

The Swedish development also shows that it is possible to increase efficiency and make public management more "cost-conscious" while retaining public control over the provision of services. The fact that private contracting can be more expensive than retaining public management has been revealed in several evaluative studies.

Countries like Hungary would do well to look at the privatization issue in a comparative context. *Reagan* and *Thatcher* inspired privatization has involved the reduction of public responsibility well under the acute need in the society. Its consequences were not long in coming.

Notes

¹ In the 1991 General Elections a major shift in the electoral behavior took place. Nearly 40 per cent of the electorate voted for the three rightwing parties – the Conservatives, the New Democrats and the Christian Democrats.

² Sweden has applied for membership in the EU and expects to join the Community in 1995.

- ³ Medical care and health services including hospitals and rehabilitation centers are the responsibility of the county administrations. Proposals have been put forward for outright privatization or transferring them to municipalities.
- ⁴ Regional communications are operated jointly by municipalities and the county councils.
- ⁵ The Swedish expenditure on the production and distribution of public services is comparable with other Western European countries like Germany and the Netherlands. What distinguishes Sweden from these countries is an extensive system of public transfers. One must remember that most of these transfers are spent in the market!
- ⁶ Women dominate the employment in the public sector.
- ⁷ Some major cities like Stockholm, Linköping, Östersund and Hälsingborg have introduced the orderer-performer organization. The 1993 candidates include Uppsala.
- ⁸ Montin (1993) points out that the 1992 Local Government Act does not permit a complete detachment of production from political control.
- ⁹ Newspapers now and then carry stories of municipalities' own employees who start private companies who often succeed in getting orders instead of the performer units which they officially manage!
- ¹⁰ It is interesting to note that the three leading electricity companies – Vattenfall, Sydkraft and Gullspång prior to a parliamentary decision on abolishing municipal monopoly – have been buying up municipally owned distribution companies, thereby undermining the government intention of creating a competitive market for electricity.
- ¹¹ The French multinational company General D'Eaux and the British Anglian Water have recently initiated negotiations with some municipalities for taking over water supply. This has caused quite a debate about replacing a municipal monopoly by a private one as well as the neglect of the environmental and emergency considerations.
- ¹² Municipal elections take place every third year which limit the length of the political mandate.
- ¹³ A third reason, namely the stabilization of economic growth through public control is less relevant in the case of urban services.

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34 SETTLEMENT DEVELOPMENT PROCESSES AND POLICIES IN HUNGARY

LÁSZLÓ LACKÓ

The situation and the development path of the Hungarian settlement system has been analysed by several authors, the results are well-known for Hungarian specialists. The views, obviously reflect the differences in the approaches and considerations about the factors of settlement development. In this study, I am going to express my professional opinion which is basically influenced by my education (economic geography) and practical experiences gained in state administration.

This study consists of:

- a rough analysis of the main settlement development processes,
- a short description and evaluation of officially declared settlement policies, and
- a few thoughts about the most recent situation.

Main features of settlement development

I feel that for better understanding of the present situation of the settlement system of Hungary, it is necessary to pay some attention to the past. What I mean here, is to select those events which could be considered as great shocks strongly influencing past development. In the history of Hungary, we can obviously find two shocks with clear effects lasting until the present:

- The first is the Turkish occupation of the country (16-17th centuries) and as a consequence, the division of the territory of Hungary into three parts (roughly: the middle was under Turkish rule for 160 years, the West belonged to the Habsburg Empire and in the East there was Transylvania); the settlement system developed in different ways in each part. The connections had been cut and transformed, many small villages in the Great Plain became desolated, the inhabitants took refuge in bigger places, cities; in the other parts of country the development continued along the earlier lines;
- The second huge shock was caused by the peace treaty, following the first World War. As is well-known only 1/3 of the former area of the country remained within the new boundaries; so Budapest became suddenly too big, most of the centres of secondary role were now abroad.

Summarising this retrospect we can state that, on the one hand, the organic development of the settlement system was interrupted twice, and on the other hand, the consequences can be shown even nowadays. The rude change in the country's territory and population basically contributes to the disproportions of the settlement system.

Each settlement and settlement system, can be studied while keeping in view all those factors which play crucial role in the settlements' life. The natural, social, economic, architectural-technical conditions affect each other. Their behaviour and pace of change are diverging; e.g. social and economic factors change much faster, than natural or technical ones. As in any system, there are present both hard and soft elements, which we have to take into consideration when studying development stages and comparing efforts and results.

The analysis of the settlement system of Hungary shows that we can find hard stiff elements which barely or very-very slowly change:

- Budapest's eminent role in the settlement system;
- The relation between Budapest and the next category of settlements is constantly 1:10;
- The single-centred character of the settlement system of the country;
- Profound differences in the settlement structure of the Great Hungarian Plain and Transdanubia;
- Shortage and/or very low level of infrastructure.

Another aspect of monitoring the development of the settlement system is offered by the analysis of the changes of long-lasting character.

They can be divided into two groups:

a) Long-term trends

- Decrease of the share of villages with less than 1,000 inhabitants,
- Preservation of the relative importance of villages with population between 1,000–5,000,
- Growing share of county-seats,
- Stable share of non-county-seat cities,
- Growing number of settlements offering medium-level services;

b) Structural changes of the settlement system

- Formation and development of agglomerations: at present, there are the Budapest (with 2.6 million inhabitants), Miskolc (0.3), and agglomeration Pécs (0.2),
- Formation and development of other type of settlement groups: around the Lake Balaton; in the attraction zones of big cities, like Debrecen, Szeged, Győr, Kecskemét etc.; city-pairs, three-piece settlement groups etc.

Altogether, in all kinds of structural formations, 6.4 million people live.

The transformation of the settlement system can also be characterised from the point of view of the urbanisation process. Urbanisation in this region and in Hungary began with a significant delay in comparison with Western Europe. There are some other features, too in resulting meaningful peculiarities of urbanisation: e.g. weak infrastructure, strong connections with industrial development, low proportion of urban population. In Hungary, the share of urban population was only 36 per cent in 1949, and in 1993 this figure is 63 per cent. The number of cities grew from 54 to 186, and behind this figure we can see a very fast growth of cities with less than 10,000 inhabitants/their number changed from 3 to 61). Looking at the regional differences of the urban population, we find – somewhat surprisingly, but perhaps in connection with historical events mentioned earlier – that the highest shares characterise the Great

Plain areas (60 per cent as an average); in the Northern region this figure is about 50 per cent and in Transdanubia it does not exceed 55 per cent.

In addition to the above-mentioned urbanisational characteristics we should take into consideration that from the second half of the seventies the government promoted and initiated the declaration of new cities. This effort greatly contributed to the fast growth of the number of cities.

National settlement policies in Hungary

The history of national settlement policies in Hungary is rather short. The sporadic planned interventions into the settlement development processes first was replaced by an overall concept in 1971. Then, following a long preparatory period, the government accepted and officially declared the National Settlement Network Development Concept.

The Concept was based on the assumption of continuing the fast economic development and as a consequence, strong spatial concentration, and there appeared the eternal dilemma of efficiency vs. equity; which was formulated in a double-goal. That is: while dealing with equity problems, the requirements of efficiency should also be taken into consideration.

Two theories served as the scientific basis: the one was the settlement hierarchy and the other was the growth-pole theory. In the period of the elaboration of the concept (in the sixties) both were in "fashion" in Europe.

In this concept the settlements were classified into 10 hierarchical categories, beginning with the capital, through the high-, medium- and low-level centres, to the settlements without central functions. The number of high and medium level centres was around 130 and they were listed by name. For all settlements with central functions, criteria were formulated, e.g. population number, infrastructural level, services. Simply speaking, we can say that this system had the meaning: the more the population is, the higher is ranking of the settlement. Some general statements about the concept can be formulated, as follows:

- The theoretical basis was "imported" and used without the necessary adjustment to the given conditions;
- The main goals of the concept were set on the basis of overall know-ledge and expectations of the sixties, a part of which proved deficient and misleading;
- The concept did not calculate with any emerging constraints, alternatives were not attached, moreover, the time horizon was taken for very long, 15-20 years period;
- The spatial concentration process was taken into consideration, however only on the side of places where the flows were directed to, and the areas loosing their populations that "forgotten";
- For the implementation of the concept there the necessary means were not available, however, the clean and hierarchical image of the concept exerted very strong temptation to the centralised state management and as a result, the distribution of development resources followed the hierarchical categorisation of the settlements.

The processes of the early seventies showed that the concentration in the settlement network continued and mainly the bigger settlements developed. The differences in the

infrastructural supply and services between cities and villages increased, which led to more social tensions, and growing inequalities. On the other hand, the cities, first of all the county-seats, became wealthier and looked better.

By the end of the seventies, it turned out that the 1971 Concept was unable to help a balanced development. In many respects, it was misleading and harmful. The general public and the professionals alike agreed upon the necessity of elaboration of another concept which is more flexible and more suitable for serving the changes in society and the needs of economic transformation.

In the early eighties a new concept was formed with the active participation of scientists, and professionals. The tensions and biases of the settlement system and also the changing and more and more strongly expressed wishes of the society were taken into consideration. Several professional and other public debates contributed to the finalisation. In spring 1985 the Parliament passed the decision on the Long-term Tasks of Regional and Settlement Development. We can say that this was an event of historical importance, as this was the first occasion when the Hungarian Parliament dealt with regional/settlement affairs.

The main emphasis were placed on:

- a spatial approach instead of a point-like view,
- the co-operation between settlements instead of hierarchical relations,
- the more rational use of resources and the protection of the environment,
- the activation and wider use of local resources, together with the strengthening of local independence,
- the requirements of economic efficiency with the acknowledgement of growing spatial differentiation,
- the preservation of the existence capacity of rural areas,
- urging the introduction of a new, decentralised financing system of settlements.

Several of the goals aimed at the improvement of population-keeping capacity of smaller places, and approached the urban and rural living conditions. The development of basic infrastructure became prioritised together with the improvement of access to higher infrastructural facilities and services.

For the decentralisation of medium-level services, the concept calculated for 180–25 settlements, in the long run. Traditional categorisation of settlements was applied, as: Budapest, cities, and villages. The system devoted to implementation had been transformed as well. Replacing the centralised distribution of financial resources, a normative and transparent method was introduced. Incentives and other regulations were altered also, the basic planning approaches were also renewed: shorter time horizon, more emphasis on rationality, preservation of values, energy saving requirements, promotion of public participation etc.

The ideas and principles expressed in this 1985 concept were seemingly in line with the professional requirements. However, the very fast and deep transformation in the second half of the eighties, together with the most recent processes of the past three years, profoundly changed the most important conditions, both in reality and in terms of the legal frame work. Therefore we could hardly speak about the realisation of the concept.

The recent situation of the settlement system

The main structural elements and trends, obviously, remained the same, however, several new features can be found. The nature and direction of the changes were not sur-

prising for the professionals, nevertheless the speed and the strength exceed expectations.

The most meaningful – and dangerous – phenomenon is the process resulting in dismemberment/partition of the country into three parts: that is, now we can see a developing West and North Transdanubia; big areas in Southern Transdanubia and the entire area of the Great Plain with unstable conditions, moving downwards; and large territory on the North and North-East suffering from structural crisis and a high unemployment rate, plus backwardness that has persisted for decades.

A few sentences should be devoted to the capital. Budapest, like an island, emerging from her environment; the employment structure shows similar characteristics to the developed countries (e. g. almost 2/3 in the services, decreasing industrial employment), a few per cent unemployment, fast transformation of the functional structure of the city, many new office buildings erected in the past two-three years; growing crime and serious air pollution, traffic jams etc. also belong to the picture. In summary, we can state that Budapest is the most promising element of the settlement system of Hungary and, has not only preserved but significantly improved her primary city status.

The settlement system is strongly differentiated and this process is continuing. Among the big cities, Miskolc is in a deep crisis and Nyíregyháza also is struggling for the future; Debrecen, Szeged and Kecskemét, suffered from a low level of technical infrastructure, at the same time there are several promising signs of recovery; Pécs situation is full of question marks, but I think, positive changes will take place, soon; Székesfehérvár and Győr are in the best position, they are on a path of a sound development.

The alteration of the political orientation of the country, considerably effect the relative positions of several settlements, first of all in the border regions.

The new act on local governments (passed in 1990) brought important changes to the framework of settlement development. The most important is that local governments became truly independent; comparing the area and the population of the country with the number of local governments (their number is above 3,000) one may conclude that there are too many units in the administrative system. Another important change took place with the very strong reduction of functions at the county level. The will of the central government is mostly transmitted by decentralised organisations. Summing up, we must say that on the one hand, independence and democracy are the positive results, while, on the other hand several uncertainties in the administrative activities hinder the faster improvement of settlement development.

The new financing system of local governments, which is basically of normative character, and offers proper possibilities for insight and control, significantly changed the financial position of many settlements.

In general, the smaller settlements are favoured by the present system; this is the situation in the case of villages and small – and medium – sized cities. The “rediscovery” and introduction of local government’s property, will somewhat differentiate the overall economic financial positions. As to the use of property, the local governments have made only the very first steps so far.

The infrastructural supply level began slowly improving, e.g. in the field of telecommunications, water supply. On the other hand, the difficulties in sewage treatments and waste management are growing very quickly, endangering the environment. In big cities, mainly in Budapest, the air pollution reached critical limits.

It should also be noted that the outlook of the settlements of the developing part of the country is becoming more attractive and colourful. Characteristic changes in land-use patterns can also be observed. In these regards the most important features appear in the capital.

The above-presented picture is full of controversial elements, of the situation is as it in Hungary. Our final remark here is that specifically because of these circumstances, it is a great problem that the country has no national settlement development concept or law. That is really lacking.

Table 34.1

Number and share of population, '000

Settlement category	1949	per cent	1980	per cent	1990	per cent	Change 1990/1949
Budapest	1,590.3	17.3	2,059.3	19.2	2,016.1	19.4	1.27
County seat	986.7	10.7	1,813.1	16.9	1,854.6	17.9	1.88
Other city, above 20,000	893.9	9.7	1,346.5	12.6	1,307.0	12.6	1.46
Other city, below 20,000	983.5	10.7	1,215.3	11.4	1,238.6	11.9	1.26
3+4	1,877.3	20.4	2,561.8	23.9	2,545.6	24.5	1.54
2+3+4+5	2,864.0	31.1	4,374.9	40.9	4,400.2	42.4	1.54
Village, above 10,000	151.0	1.6	222.3	2.1	211.5	2.0	1.4
5-10,000	587.3	6.4	625.0	5.8	600.6	5.8	1.02
1- 5,000	2,732.2	29.7	2,511.1	23.4	2,343.1	22.6	0.86
- 1,000	1,280.0	13.9	916.9	8.6	803.8	7.7	0.63
7+8+9+10	4,750.5	51.6	4,275.3	39.9	3,959.0	38.2	0.83
Total	9,204.8	100.0	10,709.5	100.0	10,375.3	100.0	1.13

Table 34.2

Distribution of cities by population categories

Population, '000	1950	1960	1970	1980	1990	1993
Below 5	-	-	-	-	5	10
5- 10	3	2	1	3	36	51
10- 20	13	16	21	31	64	64
20- 50	31	32	36	42	40	40
50-100	4	9	9	12	12	12
Above 100	2	3	5	7	8	8
Budapest	1	1	1	1	1	1
Total	54	63	73	96	166	186

35 CHANGES IN THE MIGRATORY PATTERNS IN JAPAN IN 1955–90: WITH EMPHASIS ON THE CORE REGION IN 1980–90 PERIOD

AYŞE GEDIK

Introduction

The purpose of this paper is to describe recent changes in the internal migration in Japan, especially after 1980. The previous periods up until 1980 are analyzed in the earlier studies by the author (*Gedik*, 1978, 1987). The study is heavily based on the existing studies carried out by the Japanese scholars. The emphasis is on the understanding of the Japanese case, and to draw implications for the other countries.

Study of the Japanese case is especially useful since the changes in migration and urbanization usually take place in Japan in an extremely short time in comparison to other developed countries. This makes it possible to hold some of the macro-environmental factors constant, more than it would be possible if the time horizon was longer. Consequently, understanding the Japanese case can be very useful in predicting possible future changes in other countries.

Migration will be studied only in terms of inter-prefectural migration. The emphasis will be on the migration to/from “core” region which in the Japanese literature is also referred as “metropolitan” area, or “urban” region. The core region consists of three metropolitan areas of Tokyo, Osaka, and Nagoya which are all located at the Pacific Sea Belt (*Figure 35.1*). In 1990, core region had about 50 per cent of the total Japanese population, which comprised only 10 per cent of the national land. As high as 25 per cent of the total national population resided in Tokyo M.A.¹ The rest of the country other than the core region is considered as “peripheral”, “non-metropolitan”, and “rural” although these regions may include large metropolises.

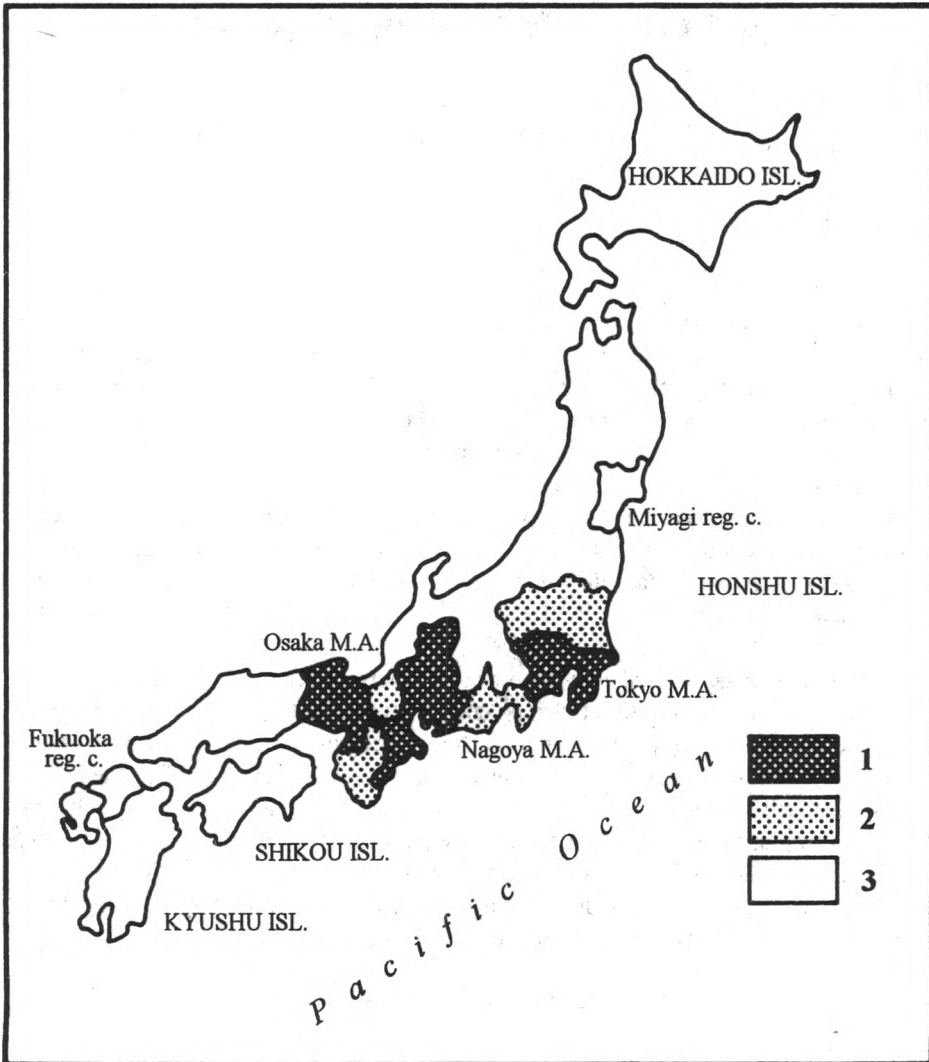
Pattern of national mobility rates

Nation-wide total, intra- and inter-prefectural annual migration rates during 1955–90 exhibit an inverted U-shape. Intra- and inter-prefectural migration are roughly equal to each other (*Figure 35.2*).

Inter-prefectural annual migration rates consistently increased after 1960 from 2.9 per cent; and reached a peak of 4.1 in 1970. Subsequently they decreased to 2.9 per cent in 1980 which is approximately the same level as it was in 1960 (*Figure 35.2*). In the next ten years during 1981 and 1990, the rates decreased further: it was 2.6 per

Figure 35.1

Core regions and selective regional centres in Japan



Key: 1=Core region (ten prefectures); 2=Extended core region (ex-urban areas); 3=Selective regional centres.

cent in 1985; after 1985 the decrease was much slower and reached a level of 2.5 per cent in 1991 which was almost equal to the rate in 1955.

Trend similar to the above stated inter-prefectural annual migration rates, i. e., an inverted-U shape with a slow decrease and leveling-off after 1980's is also observed, in general terms, for three main factors: economic growth rate, inter-prefectural per capita income disparities, and availability of potential migrants of young and mobile ages.

The period up until early 1970's, coincides with the rapid national economic growth with annual rates about and over 10 per cent, large and increasing inter-prefectural disparities in personal incomes, and large pool of potential rural outmigrants. Subsequently, we observe decrease and leveling-off in all of these indices which also coincides with the first oil shock of 1973.

When we disaggregate the total inter-prefectural migration as within and between non-metropolitan and metropolitan areas, we observe that all four migration flows exhibit pattern similar to the total inter-prefectural migration. Likewise they all have their peak in 1970-73 (*Figure 35.2*).

- 1) Until 1966, migration from "non-metropolitan to metropolitan" areas was the largest. During 1960 and 1973, annually about a little over one million people transferred from non-metropolitan to metropolitan areas.
- 2) However, after 1966, the largest number of migrants was observed "within metropolitan" areas.² In other words, in later stages, urban-to-urban rather than rural-to-urban migration predominates which is parallel to the findings in other developed countries. After 1963 all through the period until 1991, annually above one million people moved within metropolitan areas .
- 3) During 1975-1980, migration from "metropolitan to non-metropolitan" areas was almost equal to the reverse flow from "non-metropolitan to metropolitan" areas which resulted in almost zero net migration to the core region. In other words, net migration to core region which was large before 1973, decreased to very low level by 1980 (*Figures 35.2, 35.3*).
- 4) In the beginning of the post-war urbanization period in 1954-55, migration "within non-metropolitan" areas³ was equal to migration "within metropolitan" areas. With the onset of urbanization the difference between them increased. In 1965, migration "within non-metropolitan" areas became equal to return migration from metropolitan areas, after which it was the smallest flow and had the least variation.

In summary we can see three turning points (*Figure 35.2*). Firstly, in 1965-66, "within urban"⁴ migration caught up and later surpassed the "rural-to-urban" migration. Similarly "urban-to-rural" return migration and "within rural" migration was equal to each other in 1965-6 after which the later remained at the lowest levels. Secondly, in 1973-5 all four flows had their peak after which the mobility declined. Furthermore, "rural-to-urban" and "urban-to-rural" migration became equal to each other which resulted in net migration in metropolitan areas to level-off and to be about zero up until 1980. Thirdly, after 1980, "rural-to-urban" migration which has been decreasing since early 1970's, stopped decreasing and leveled-off until 1991. Together with continued decrease in "urban-to-rural" return migration, we observe that net migration for the urban areas started to increase and became positive again during 1980 and 1990.

Figure 35.2 *Annual prefectural migration and migration within and between metropolitan and non-metropolitan areas, 1955–1990*

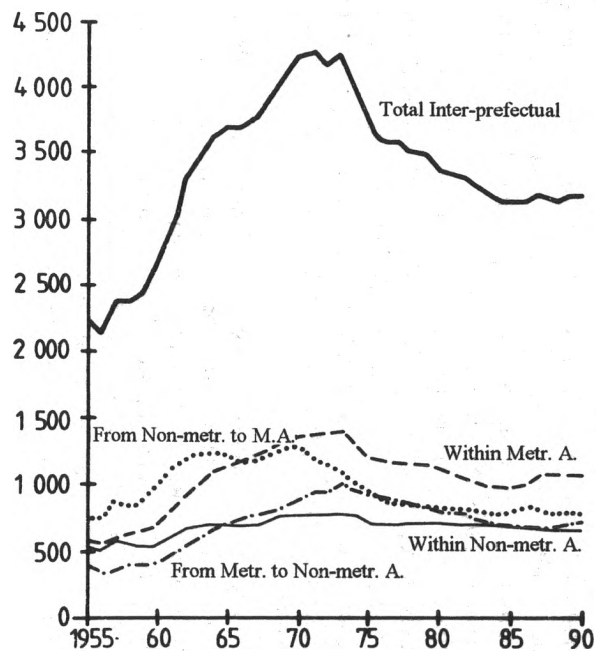
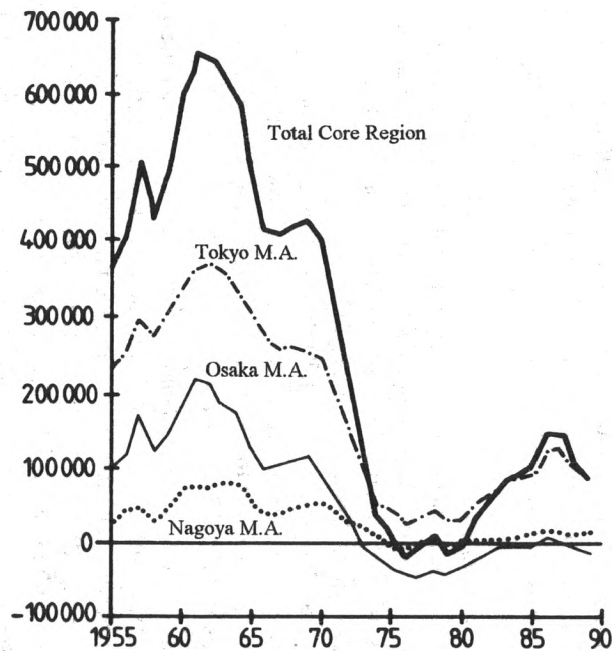


Figure 35.3 *Annual number of net migrants in the core regions, 1955–1998*



Net migration to the core region versus the rest of the country⁴

As it was indicated in the previous section, the net migration to the core region increased especially until 1973 that is until the first oil shock. Thereafter it decreased and stagnated and it was almost zero between 1975–80. After 1980 (especially after 1985) it increased again, and became positive albeit at a much lower level (*Figure 35.3*).

This inverted U-shape with slight upturn after 1980 is observed in all different definitions of the core region,⁶ and for each of the three metropolitan areas which together make up the core region (*Figure 35.2*).

South Kanto (or Tokyo Metropolitan Area) had the largest net migration among the three metropolitan areas which became especially predominant after 1975 (*Figure 35.3*) In fact, observed positive net migration in the core region is largely due to Tokyo M. A. For example, in 1985–90, net migration to Tokyo M. A. comprised about 90 per cent of total net migrants to core region. At about the same time, i.e., after 1975, in terms of net migration, the second metropolitan area Hanshin (Osaka M. A.) lost its position to third metropolitan area Chukyo (Nagoya M. A.) which is located halfway between the two. Furthermore, although Hanshin (Osaka M.A.) picked up after 1980, nevertheless she continued to have negative net migration.

Similar findings concerning increasing predominance of the Tokyo M.A. are also observed in a study by Murayama in which he carried out factor analysis on inter-regional net migration (*Murayama, 1991*).

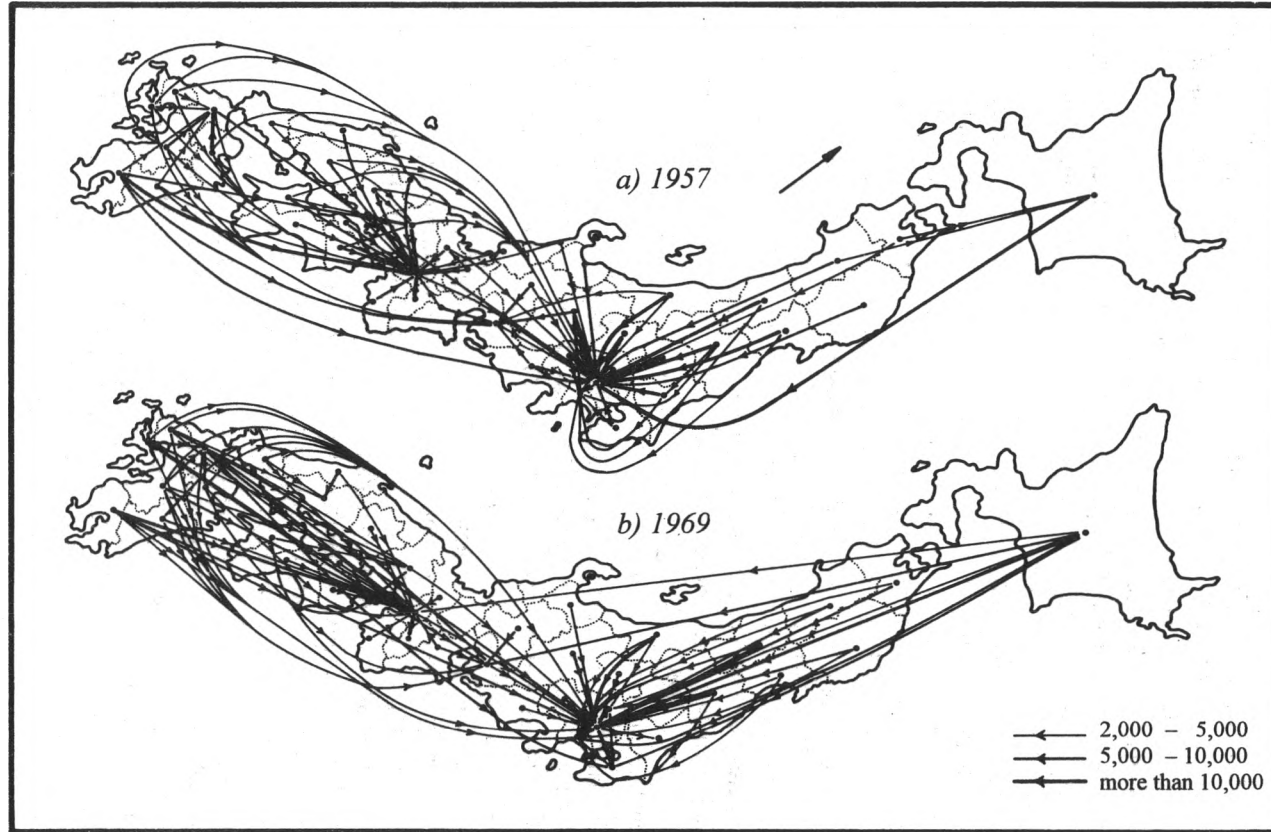
- Initially, in 1954 there were four main centres of net migration: Tokyo and Osaka; and to a lesser degree Nagoya, and Fukuoka (*Figure 35.4*);
- By 1970, mainly a “bipolar” (Tokyo and Osaka) pattern is observed, with Nagoya M. A. being a much lesser centre;
- An analysis in 1979 shows that Tokyo certainly dominated the other two metropolitan areas. Migration took place mostly within metropolitan areas which indicated spread to exurban areas, as well as in almost zero net migration between metropolitan and non-metropolitan areas;
- In 1985, we observe a return to long distance migration to Tokyo M. A. from peripheral regions and from other metropolitan centers such as Osaka. “Unipolar” nature of the net migration pattern became very dominant.

An opposite and symmetric trend of net migration is observed in the rest of the country which consisted of 37 prefectures. These prefectures in aggregate lost heavily up until 1975. However, during 1975–80, they had positive net migration where after they again started to lose net migrants albeit at a lower level. Likewise, number of depopulating prefectures was highest in the three quinquennial periods between 1955 and 1970 such that 27, 25, and 22 prefectures i. e., about 48–59 per cent of all prefectures lost population with growth rates below zero. After the turning point in 1970, this number decreased to 1, 1, and 5 prefectures. However after 1985, the number increased again to 20 (MAC, 1990).

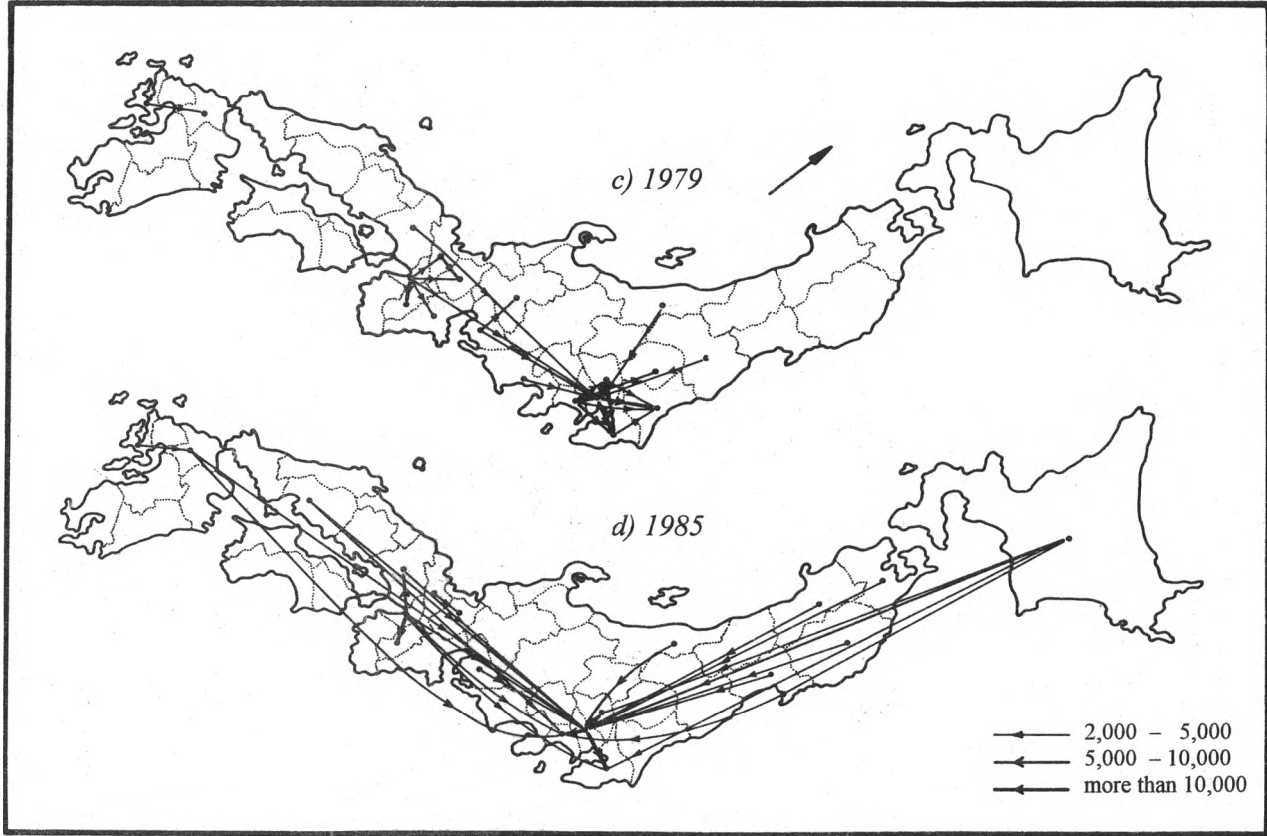
Among these non-metropolitan 37 prefectures, those which are adjacent to the core region such as exurban areas⁷ increasingly fared better than the rest: they either had, consistently through time, more positive net migration; or their negative net migration

Figure 35.4

Spatial net-migration patterns



Source: Murayama, 1991.



decreased. In fact, the gains in net migration was wave-like which spread from the core prefectures to suburban and later to exurban prefectures with a time lag which resulted in long hours of commuting in the metropolitan areas (IPP, 1984; MAC, 1992; Barro, 1992).

After 1980, other than these exurban prefectures, the two regional centers (in Fukuoka and especially Miyagi prefectures) which are located in the north and south parts of the country also emerged as centers with positive net migration (*Figure 35.3*). Among the two, Miyagi with the capital city of Sendai is only two hours away from Tokyo M.A. with Shinkansen and is also a center of higher education.

Macro-factors behind the net migration to the core region

As analyzed in the previous studies (*Gedik, 1978, 1987*) the first phase up until 1970, when net migration to the core region was increasingly large, coincides with: heavy rural-to-urban migration and depopulation as a consequence of concentration of investments especially those of heavy industry along the Pacific Sea Belt and centered around the three metropolitan areas; achievement of high levels of efficiency, and rapid economic growth; as well as large inter-regional disparities.

The second period between the oil shock in 1973 and 1980 experienced slow down in mobility, leveling-off of net migration to the three metropolises almost to zero level while within metropolitan migration became the predominant flow. These changes were accompanied with: the slowing down of the national economic growth; decrease in inter-regional disparities; restructuring of industry such that shift in emphasis from heavy to light electronic and automotive industry (which had less dependence to be close to large domestic markets or export ports due to its light weight; and which did not need large labor pool but preferred cheap rural female labor); provision of nationwide infrastructure which lessened the locational constraints for industries; increase in incomes and demand for goods and services in the peripheral regions; change in preferences for environmental quality.

After 1980, net migration to the core region started to increase again but at a much lower level than the pre- oil-shock period between 1955–73. It should be emphasized that this increase was especially in the Tokyo metropolitan area and was observed especially after 1985 (*Figure 35.3*). Tokyo M.A. grew faster than the national average: more than 30 per cent in 1975–80, 70 per cent in 1980–85, and 140 per cent in 1985–90 (IPP, 1993a).

Firstly, the predominance of Tokyo metropolitan area especially after 1980 can be explained as follows:

- Although production phase of the industries could be located in the rural areas, R&D phases of especially high- technology preferred core areas of the metropolises which facilitated intense contacts between scholars and easy access and exchange of information. To obtain the latest information became increasingly important as the developments in technology and science grew in gigantic steps. To exploit these fast changes in a maximum efficient manner, companies preferred to locate their R&D offices in Tokyo. This important point to be close to the source of the information manifested itself clearly in Japan since R&D and other related activities are heavily supported by the private sector.

- Furthermore, Tokyo contained about half of the total number of universities and research institutes in Japan;
- Central management/decision making functions of the companies preferred to locate in Tokyo. Even the companies from the second metropolitan area of Osaka, moved their central offices to Tokyo. In a cultural milieu of Japan where face-to-face informal contacts are most effective, closeness of the private sector to the national government bureaucrats, and headquarters of the banks which are all located in Tokyo, is very significant. Furthermore, increased globalization of the private companies in Japan increased their need to be close to the source of up-to-date information as well as to be in easy access to highest quality of services to support their operations (IPP, 1993a). Tokyo was not only significant for the Japanese companies, but also for foreign companies out of which 80 per cent are located in Tokyo M. A. (Kuroda, 1990);
 - In 1980's, money markets and financial sector gained increasingly more importance in the world economy. Japan becoming a world power facilitated Tokyo to be one of the world financial centers together with New York and London.

Secondly, when we study the increase in net migration to the core region we observe that it is more sensitive, than total inter-prefectural migration, to the changes in the previously stated three main socio-economic factors: 1) national economic growth; 2) inter-prefectural per capita income disparity; and 3) demographic factors, i.e., the pool of potential migrants. This sensitivity of the core region becomes especially obvious after 1980 when the mobility rates are much lower than the previous periods.

Increase in the economic growth.

Various indices indicate to the close association between net migration to the core and the national economic growth. In 1980's the increase in net migration to the core region especially after 1985 coincides with increased value of yen and the bubble economy, and with increased national economic growth (MAC 1993, 1991; Tanaka, 1992). For example, active opening ratio increased from about 0.3 per cent in 1955 to a peak of 2.6 per cent in 1974 which later decreased to about 0.7 per cent between 1982–86. However starting in 1986, it increased from 0.7 to about 1.5 per cent in 1990. Likewise, annual increase rate of Gross National Expenditure and of National Income per capita decreased from a high level of about 13 per cent in 1975 to 3 per cent in 1983–87. However, between 1987 and 1990, it again increased from 3 per cent to 7 per cent.

Increase in the inter-prefectural per capita income disparity

The pattern of inverted U-shape with an upward tilt after 1980 which is observed for net migration to the core region and also for the economic growth, is also observed for the inter-prefectural per capita income disparity.

The results are consistent with various different indices of disparity. For example, in a study by Barro "the unweighted cross-sectional standard deviation for the log of per capita" inter-prefectural incomes was high around 0.3 and 0.2 during heavy rural-to-urban migration between 1950 and 1970,⁸ which decreased rapidly to 0.1 in 1980

(Barro, 1992). After 1980, it started to increase again however slight it was from 0.1 in 1980 to 0.1 in 1985, and to 0.2 in 1987. In another study by Tabuchi weighted and unweighted coefficients of variation in per capita prefectural incomes, urban to rural per capita income ratio during 1954 and 1982 exhibited the same pattern with a peak in early 1960's and a lesser peak in 1970,⁹ and an increase after late 1970's (Tabuchi, 1987). Similar to the findings by Barro and Tabuchi, the same pattern is also observed in the analysis by Tanaka in which she studied inter-prefectural per capita income inequality during 1955–88 in terms of entropy levels (Tanaka, 1992).

All these indices indicate during 1980's increased net migration to metropolitan areas was accompanied with increased inter-regional per capita income disparity. The data indicates that this disparity was largely, if not solely due to increased incomes in Tokyo M.A. (Barro, 1992). The ratio of per capita income of Tokyo prefecture to the average level for the nation, to the prefectures with minimum per capita incomes (Kagoshima and Okinawa prefectures), and to second and third largest metropolitan areas (Osaka and Nagoya) all indicate increasing disparity between Tokyo and the other prefectures. Likewise, during 1980's average annual growth rate of per capita incomes in Tokyo region was 3 per cent whereas it was 2.2 in the rest of the country (Barro, 1992).

Demographic factors: the increase in the pool of potential migrants

Some Japanese scholars assert that net migration to the core region is mainly affected by the demographic rather than economic factors.¹⁰ In short, size of immigration and net migration to core region is related to the size of the available population in young and mobile ages which can be considered as potential migrants to metropolitan areas. Likewise, return migration from metropolitan areas are associated with their supply of population in ages between 25–34.

Interestingly, Kawabe shows that the "age-specific" outmigration rate of young population to metropolitan areas has not changed throughout the period. Likewise, he shows that the increase in the return migration such as the one observed in 1975–80 is highly related with the bulging size of the previous immigrants in ages 25–34. He asserts that seemingly significant changes in the migration rates is only a statistical artifact.¹¹ In short, relation between age structure of the population, the resultant supply of potential migrants, and the age-specific migration rates (rather than the relation between economic indicators and aggregate migration rates), are emphasized.¹²

Firstly, we can explain increase in net migration in 1960's and subsequent decrease in 1970's in demographic terms as follows. The available data indicate that the first baby-boom in 1947–49 supplied a large pool of young ages in 15–24¹³ in 1960's which was the period of rapid rural-to-urban migration in the core region. After 1950, the fertility levels in Japan decreased very rapidly with resultant decrease in young ages of 15–24 during 1970's which also coincides with significant reduction in the net migration to the core region. Secondly, the increase in net migration to core region after 1980 can at least partly be also explained by demographic factors. During 1963–75 we again observe a second baby boom, an increased number of births despite low fertility levels. This was because of the fact that babies of the first baby boom got married and had their own babies. This second baby boom resulted in bulged numbers

of young ages in 15-24 in 1980's which coincided with the increase in net migration to the core region.¹⁴

In the Japanese case, the pattern of changes in the above stated three factors (economic growth, inter-prefectural per capita income disparities, and pool of potential migrants) throughout the study period of 1954-90 are almost identical to each other. Furthermore, their pattern of change is very similar to the change in net migration to the core region. It is very difficult if not impossible to separate individual effects of each one of them. Most probably, they confounded the effects of each other.

Plausible future trends

Considering the fact that fertility will further decrease below replacement levels, and together with accompanying ageing, we can safely predict that whatever changes will be observed in the net migration to core region will be at low levels of intensity such as the one observed in 1980's.

Two factors may determine changes in the net migration. Those metropolises which will be successful in "internationalization" will attract economic activities and migrants.¹⁵ Therefore for example, we are observing efforts by Osaka M.A. and cities in other regions of the country such as Chitose in Hokkaido trying to provide facilities for global interaction.¹⁶

The other factor depends whether Japan will militarize. If "militarization" takes place, then we can predict that those urban areas with existing "high-technology industries" will be sites for defense industries. These will attract other private high-technology industries in a snow-ball fashion and will determine which metropolises will attract net migrants.

At present Japan like other developed countries are experiencing ageing. In 1990 percentage of those aged 65 and over is 12.1 per cent. It is predicted that it will increase to 17.0 per cent in 2,000, and to 25.8 per cent in 2,025 (IPP, 1991/92; MAC, 1993). This will result firstly in unavoidable increase in "immigration" even if the off-shore manufacturing and robotization is further emphasized.

The other effect of ageing will be on the "old age composition in the metropolitan areas". Although in the metropolitan areas, presently percentage of old age people 65 years and older is lower than the national average; but the rate of its increase is fastest. Therefore, we can predict a sudden increase in this percentage due to ageing of previous migrants in the metropolitan areas (*Itoh*, 1992). Furthermore, most probably increasing number of these old age people will be living alone.¹⁷

Considering these various effects of ageing, can we predict that more and more percentage of the residents in the metropolitan areas will be "old aged and immigrants" as observed presently in most of the western countries ?

Conclusions

Japanese case is consistent with the other theories about the "migration transition" as observed in other developed countries (*Zelinsky*, 1971). Rural-to-urban long distance migration is replaced with "within metropolitan" migration and long hours of "commuting".

It is interesting to note that after 1980, with the increase in national economic growth, inter-prefectural per capita income disparity and pool of potential migrants of

young ages; we again begin to observe an increase in the long-distance rural-to-urban migration to metropolitan areas and especially to Tokyo M.A. (*Figure 35.4*). Is the recently increased rural-to-urban migration, partly because of the fact that Japan in 1990 with urbanization level of 63.0–77.4 per cent¹⁸ did not yet complete her urbanization process, contrary to the other developed countries (IPP, 1993a; IPP, 1991/92)?

The increasing need and role of the higher quality sophisticated services and consequent competition between the metropolitan areas had the following consequences:

- 1) Importance of the “largest” metropolis (Tokyo) in relation to other metropolitan areas (Osaka and Nagoya) increased significantly. During 1980–90 it became clear that the pattern of net migration changed from that of multi-polar to bipolar, and finally in 1980’s to “unipolar” (IPP, 1993a).
- 2) The “hierarchy” between the second and third metropolitan areas (Osaka versus Nagoya) switched in terms of net migration.

With high levels of development, that is with urbanization level of about 75 per cent, rather fossilized urban structure, low levels of inter-regional and inter-sectoral disparities, reduced fertility rates below replacement levels: intensity of migration “stagnated” and leveled off. Subsequent “increases” in migration as observed after 1980 and especially after 1985 is “minor” in size compared to previous levels.

In the Japanese case, we saw that the changes in the pattern (which was in the shape of an inverted U-shape with an upturned end after 1980) for net migration to the core region are the consequence of the changes in all three factors: 1) national economic growth; 2) inter-prefectural per capita income disparities; 3) and demographic factors. Since all three factors together with net migration to the core region exhibited similar pattern of change through out the period between 1954–90 in Japan, it is very difficult if not impossible to separate individual effects of each one of them on net migration. Most probably, they confounded effects of each other.

Study of the demographic factors showed us the significance of the effects of the dynamics of fertility changes and the resultant age and sex structure of the population, life-cycle, and cultural-traditional factors besides economic factors, on migration.

Migration to/from the “core-urban-region” of the country is found to be very sensitive to national economic and demographic changes. Furthermore, these changes are more clearly reflected especially in the largest core region such as Tokyo M.A. Japanese case is a clear manifestation of the interaction between changes in global conjecture, level of development and national economy, and social-demographic factors, and migration.

Notes

¹ Out of total population of Japan, 48.9 per cent lived in the urban core region. Shares of Tokyo, Osaka, and Nagoya metropolitan areas were as follows, respectively: 25.7 per cent, 14.7 per cent, and 8.5 per cent.

² This can be due to the spillover to suburban and exurban areas from respective metropolitan centers, or due to migration between different metropolitan areas. In the existing Japanese literature which was available to the author, this point was not dealt with.

³ Migration “within non-metropolitan areas” should also be disaggregated as migration to/from large cities and also to/from the rest of these non-metropolitan areas such as small towns (gun) and villages (mura). Author was unable to find an existing study to clarify this point.

- ⁴ As stated previously, in the Japanese literature, “core region”, “metropolitan area” and “urban area” are used interchangeable. Likewise, “peripheral region” is used synonymously with “non-metropolitan area” and “rural area”. In this paper, sometimes for the sake of brevity, “urban” and “rural” are used instead of “metropolitan” and “non-metropolitan”, respectively.
- ⁵ *Ibid.*
- ⁶ a) Tokyo M.A. Kanto-Koshin: (ai) South Kanto (Minami Kanto: Tokyo, Saitama, Chiba, Kanagawa); (aii) North Kanto (Kita Kanto : Ibaraki, Tochigi, Gumma). (b) Nagoya M.A. (bi) Chukyo (Aichi, Mie, Gifu); (bii) Tokai (Chukyo, and Shizuoka); (biii) Chubu (Tokai and Toyoma, Ishikawa, Fukui). (c) Osaka M.A. Kinki: (ci) West Kinki (Nishi Kinki or Hanshin: Osaka, Kyoto, Hyogo); (cii) East Kinki (Higashi Kinki: Nara, Shiga, Wakayama).
- ⁷ These exurban prefectures (as indicated above in endnote no. 6) are located as follows: North Kanto; East Kinki; and Shizuoka, Toyoma, Ishikawa, and Fukui prefectures in Chubu region.
- ⁸ It is interesting to note that inter-prefectural disparity continued to decrease all through 1955 and 1980, and later in 1980's it increased. In short, it exhibited a V-shape. On the other hand, inter-regional (total of seven districts) disparity followed the expected pattern of inverted-U shape until 1980 (*Barro*, 1992).
- ⁹ It would be interesting to study the factors behind the decrease during 1960–70.
- ¹⁰ See *Ishikawa*, 1992; *Itoh*, 1991a, 1991b, 1992; *Okazaki*, 1991a, 1991b; *Uchino*, 1991; *Kawabe*, informal talk in Tokyo, Summer of 1993.
- ¹¹ Informal talk with Professor *Kawabe* in Summer 1993, Tokyo.
- ¹² Likewise *Itoh* states that the decline of actual migration rate from 1970 to 1980 was half accounted for by changes in the age structure (*Itoh*, 1991a). *Ishikawa* rigorously analyses this relation during 1970–80 by applying shift-share analysis (*Ishikawa*, 1992).
- ¹³ Migration of young ages especially in 15–19 to the core region and particularly to Tokyo M. A. is largely because of the heavy concentration of university education in these metropolitan areas. Percentage of high school graduates going on to junior college/university was 36.3 per cent in 1989 (*Tsuya*, 1992). 1980, Tokyo M. A. (consisting of Tokyo, Saitama, Chiba, and Kanagawa prefectures) had 51.38 per cent of total university students (*Ishikawa*, 1987).
- ¹⁴ This effect of reduced fertility and the consequent reduced number of children per mother is especially significant in Japan due to tradition of family system in which eldest son is “supposed” to return and succeed the family after university education or after having a job out of town, and he succeeds the family. Therefore, when the number of children per family falls below 2.0, pool of potential “life-time” migrants “theoretically” reduces to zero (*Okazaki*, 1991a; *Itoh*, 1991a; *Uchino*, 1991).
- ¹⁵ Informal talk with Professor *Fu-Chen Lo* in Summer 1993, Tokyo.
- ¹⁶ For example, Osaka is building teleport and a new giant international airport larger than the Narita International Airport in Tokyo. Technopolis in Chitose emphasizes her airport as hub of transfer of cargo between continents. Likewise, Niigata prefecture actively promoting international interaction with the far eastern regions of Russia and Korea.
- ¹⁷ Recently increasingly more Japanese population is not marrying at all or having fewer children, and when aged are being taken care by the institutions rather than by the family members (*Shimizu*, 1992).
- ¹⁸ The first figure of 63.0 per cent relates to ku areas of Tokyo prefecture and shi-areas (cities). The later figure of 77.4 per cent refers to “densely inhabited districts” (*Itoh*, 1991a).

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36 NEW APPROACHES TO REGIONAL DEVELOPMENT POLICY IN CROATIA

ZLATAN FRÖHLICH-SANJA MALEKOVIĆ

Regional diversity and inherited circumstances

One of the distinguishing socio-economic characteristics of the Republic of Croatia is its regional diversity. It has persevered throughout history, regardless of the changing state borders, and it gains special significance within the modern borders of the Croatian state. The source of this diversity lies in the fact that this relatively small area encompasses parts of large European entities with entirely different characteristics regarding relief, hydrography, climatic factors, pedologic and other natural features. The regionally very diversified Croatian region, has in the past come under the influence of various civilisational and/or cultural spheres, which have deepened the already existing geographical diversity even further.

The criteria for the territorial definition of Croatia have changed in the past, along with changes in the political system. The most recent wave of changes in 1990s, after the demise of the socialist self-management system and the rise of the independent state of Croatia, has created the need to define a modern territorial and political organization of the state. In these efforts to define the various levels of state administrative organization, certain differences appeared between the legal approach to this problem and the practical solutions which were being implemented, especially at the local level. In such cases, when it became impossible to identify the regional framework and regional centers for the dissemination of state functions, no solutions were found.

The diversity of the Republic of Croatia is most pronounced in the manner in which its regions are situated. The cartographic description of the state accentuates this diversity. A look at the map reveals the extraordinary boomerang shape of the Republic pointing towards Europe at one end and cradling Bosnia and Herzegovina between its two prongs. Its North-eastern tip touches the Danube river, the Trieste Bay to the West and the mouth of the Boka Kotorska Bay to the South-west. On the continental reach, the distance between the furthest points is 470 km, while the sea route measures 520 km as the crow flies. The total area of the Croatian state is 56,538 km² but the length of the border is as much as 2,728 km.

The basic natural division of the Croatian state is the following: the Panonian and peri-Panonian lowlands in the North, the Adriatic coastal area and its immediate hinterland to the West and the South and finally the mountainous belt which separates them. The prominent dichotomy of these large natural and geographic entities and their internal natural and locational differences form the basis for the regionalisation of Croatia.

Uneven regional development is partly a direct reflection of the very unequal natural and other endowments of the various Croatian regions but the existing development potential of some regions has also often been neglected in the past. Certain regions have remained isolated as an adequate infrastructural network remained elusive.

During the previous socialist/communist regime efforts were made to solve the problem of unequal regional development by using instruments available to the state for investment in the less developed regions. Certain favourable effects were achieved but the economic and the political dimension of such interventions remains questionable. Namely, they represented a flow of assets from successful economic entities and relatively more developed regions to economically inferior areas. Some of the basic priorities, such as the construction of major roads, were outside the jurisdiction of decision makers in Croatia, since all such plans were drawn up in state and political institutions at the level of the ex-Yugoslav Federation. This has resulted in the modernization of communications in the direction of Belgrade and the transit towards South-eastern Europe, while modern roads towards the Croatian Adriatic Sea coast were neglected.

The large regional divisions of the Republic of Croatia are mutually complementary, especially the continental and the Mediterranean regions.

Most of the continental region is low-lying with substantial forest wealth. It is directly linked to the Middle European communication system and has lively cooperation with economically more developed centers in its wider surroundings. A substantial part of the Croatian demographic potential can be found in this region which greatly determines its economic structure. The various sub-regions – Posavina, Podravina and Pokuplje are also mutually complementary both in economic terms and as parts of a single transport and communication network.

The regional diversity of the Mediterranean region of Croatia rests on the interaction of the various urban centers with their immediate and wider hinterland. Some parts of the Croatian Adriatic littoral established connections with their Croatian, Bosnian and Herzegovinian and wider European hinterland, thereby avoiding conflicting development aspirations.

Regionalism is strongly rooted in the tradition of the Mediterranean region due to the different historical heritage of the various constituent parts. However, the traditional differences and the corresponding regional diversity in most cases echoes the modern economic and communication and regional differences in Croatia.

Definition of the framework for a new regional organisation

To acquire an understanding of the various attempts at changing the regional organization of Croatia, it is important to note the differences between the characteristics of the administrative and economic regionalisation. Namely, these two regionalisation principles have different aims and results.

During the past 20 years the meso-regional administrative organization of Croatia was linear, meaning that all the regional units had the same jurisdiction. As a result of this linearity, the macro-regions whose uniqueness had a historical, natural and rational justification found themselves outside the administrative regional framework. The basic rationale behind the linear regional structure at the meso level was to identify more easily the more and the less developed counties of Croatia. This in-

adequate institutional regional framework, together with the economic recession, replaced the regional development policy with a development policy aimed at the less developed regions. This move from a natural regionalisation to an administrative (political) one, initiated very frequent changes and a weakening of the role of regional centers in creating regional development policy.

Apparently, the so-called macro-regional division of Croatia is well defined. The major regions are: 1) The Adriatic coastline with its hinterland; 2) Slavonia and Baranja, and 3) North-west Croatia. What still remains the subject for discussion is the convention for the break down of large geographic areas into smaller regional units. But, even in this respect, several coordinates are already known (the natural and the geographic characteristics, the transport links, tradition, etc.) and only a few open questions remain unanswered. Nevertheless, certain dilemmas are present and they have to be dealt with objectively and professionally. Thus, what remains to be done is to find an objective method of regional division of Croatia, that is, to choose the appropriate criteria and the method of division. One of the obvious criteria which has to be honoured is the gravitational catchment of regional centers. An urban center of such regional communities must have the necessary tradition as a higher order regional center with obvious locational advantages in order to become the hub of social and economic functions.

The criteria for identifying certain regional communities do not have to include minimal requirements regarding territory and population size. With regard to the size of Croatia, and its population, as well as its geographic diversity, it would be optimal to form narrower regional gravitational centers on of approximately 4,000 km² in size and with a population of 300,000. Territorial units of this size and population concentration are, however, only approximate, since there are large differences in population density in Croatia and a more equal distribution is impossible to achieve.

Should the regional tradition be considered, Croatia would be divided into four macro-regions: the Osijek, Zagreb, Rijeka and Split regions. They are all geographically, ethnically, culturally and historically well defined, internally homogeneous, but very different with regard to economic potential. This level of regional organisation in Croatia corresponds to the present level of development. Further sub-division of macro-regions would be difficult, since there are no clear criteria for the division. All regionalisation attempts in Croatia so far maintained the same macro-regional division intact but used completely different criteria for further territorial sub-divisions.

Searching for a new model of regional development

Basic aims

In view of the above mentioned, we can conclude that, apart from some positive effects created by regional policy in the past, its general influence was negative. The results of long-term past practice in administrative/political regional development policy indicate that a significantly different model of regional development should be implemented. Firstly, the content of past regional development policy was politically motivated. Secondly, regional development policy was geared to solving problems of the less developed regions. Thirdly, a go-between mechanism was established between regions on very different levels of development. Fourthly, the institutional framework for the

regional development policy contributed to the widening of regional disparities. And, lastly, the implementation of the past regional development policy reproduced the economic structure of more developed regions in the less developed ones and failed to activate regional comparative advantages.

Thus, the aims of the new regional development model should be:

- to achieve a uniformity of economic and social structures and a higher living standard of the population;
- regional development policy should be rooted in the overall development policy of the country as a whole, taking care to evaluate the regional comparative advantages, which could be used for more dynamic regional and overall development;
- the organization of regional development should be based on functional polycentric development which stresses the development component in the interaction between the national and the local level;
- the meso-regional organization should be based on urban centers and the size of the different regional units should depend on the size of their gravitational catchments;
- instead of differentiating regions by the level of development, the new regional model should stress the importance of developing their predominant comparative advantages, in order to sustain more balanced and dynamic regional, as well as overall development.

Having in mind these basic guidelines, the question that one can put forward is which regional policy options are available to a country in transition towards the market economy and which experiences can be derived from the Western economies on comparable levels of development.

The new role of local development

Even from the global perspective, it is evident that the aims and frameworks of regional development have decisively changed. New developments in economy, technology and policy demand new orientations and new instruments, the more so since the traditional regional policy has a controversial background (*Steiner-Sturn, 1992*).

The new awareness of local problems and changing attitudes have increasingly encouraged local actors to be much more open to innovative and integrative economic and urban development approaches. These new innovative approaches to local economic development are characterized by two features, namely, a considerable expansion of instruments available for local economic development, and a change of target groups of local economic policies (*Hennings-Kunzmann, 1990*).

Vertical organizational and administrative structures have proved inadequate in creating a local entrepreneurial climate as the motive force of regional and local development (*Stöhr-Taylor, 1982*). Namely, experience in the Western European regions confirms that regional development is most effectively practised on the local level, or at least with an active participation of local development entities and optimum use of local development factors.

There is a growing awareness that the central government's regional policy is in many respects limited, due to the state's inability to fully assess local developmental needs, to react promptly in continuously changing circumstances, and thus to enhance

local development, economic restructuring, entrepreneurial vitality and innovation in its regions. It is the lack of flexibility and knowledge concerning vital local matters which hinder the state in the successful implementation of regional policy measures. This awareness is all the more present in Croatia also.

Even though the legislative and administrative framework for more efficient local government organisation and management has been established recently, the importance of creating local economic support structures and mobilizing local resources and actors – as factors for encouraging regional development and overall regional competitiveness – have not been fully recognised so far.

However, even though we can hardly say that local development policies are even in the experimental phase in Croatia, in a limited number of the more developed northern regions there is a growing interest in local development issues and policy measures, as well as the development “from below” approach.

When we refer to the crucial local development factors, we primarily refer to the vital issues of information dissemination, activation of local subjects, establishment of new institutions, development of alternative jobs, improvement of the capacity of existing enterprises for innovative production, identification of new opportunities and the creation of conditions for the establishment of new enterprises. This involves to a large measure the process of institutional development, since what is needed is the emergence of planning systems and institutions that will be capable of providing a long-term direction to the process of development.

A wide range of measures are available to direct regional development from a local level. For instance, if the cultural climate for innovation and entrepreneurship is favourable, further development may proceed through the cooperation of local agents. Multiple benefits can be derived from an adequate organization, easy access to information, or the development of local educational and training systems (Haveri, 1990). Such actions do not require large financial resources, so that lack of funding should not be an obstacle for their implementation.

This kind of approach to regional development could facilitate more flexible and harmonious relations and cooperation between the local, regional and state levels in Croatia, which is indispensable for the successful management of the overall process of economic development.

Obviously, this is not simply a question of the necessary legal and institutional changes, but also the question of upgrading knowledge and changing the mentality, traditional skills and decision-making structures, as well as old working and organizational patterns. In our view, this is an important aspect of the regional policy reform not just in Croatia, but also in all countries undergoing transformation.

Namely, in Croatia there is still scarce knowledge as to how economic development should be managed on the regional level, and no efficient mechanisms of cooperation between the regional and state levels have been established. The vital market economy framework for regional policy was of course missing, and this lack of experience made the whole issue of decentralisation and creation of the basis for a regional policy on a completely new basis a much harder task to achieve.

Besides the inherited problems, a new one emerged – the occupation of several Croatian regions from the part of the Serbian aggressors. For the moment, the way, modalities and speed of integrating these regions into Croatia are not clear. This is without doubt a serious additional problem for Croatia’s new regional policy.

Notwithstanding, it is expected that the mentioned diversification of the Croatian regions, both in the sense of resources and developmental potential, as well as due to the fact that Croatia had developed more elements of a market economy, in comparison to other former socialist countries, will facilitate the creation of the new regional policy.

Changing role of the state

When talking about regional development policy, it is inevitable that due attention be given to the changing role of the central governments in the countries in transition, as well as to the new relations between the local, regional and central government levels.

The issue of centralisation versus decentralisation is a subject of considerable controversy. As *de Kadt* (1993) points out, we are only beginning to understand the issue of decentralisation. Some believe that decentralisation will weaken central government without enhancing welfare. Indeed, it is quite often suggested that decentralisation leads to worse abuse of power by local elites than central government. In depth case studies have shown that decentralisation involving democratic forms of local government is an essential aspect of "good governance", i. e. government which incorporates strong participatory elements, and serves objectives of social justice and efficiency (*Stewart*, 1993).

Even though the national state is evidently still important, due to the growing internationalisation it becomes less self-sufficient and on grounds of differently specialized regional manufacturing agglomerations, increasingly inhomogenous (*Steiner-Sturn*, 1992).

The impulse which devolution (transfer of central government authority to local governments) can give to the development of the entrepreneurial climate, innovativeness and flexible environment for the development of market institutions, establishment of vital horizontal interactions on the local level, the development of the private sector, establishment of information and business networks and the start-up of new enterprises, are issues which are gradually raising attention from the part of policy makers.

It is becoming all the more clear that cooperation, participation and business should take place without the intervening of the state authorities, according to internal needs of particular sectors. In other words, nothing should be accomplished on a higher level, if it can be performed more naturally and efficiently – provided that broader common interests are not violated – on the lower levels (*Ježić*, 1992).

Due to the complex circumstances in Croatia, this issue is a very sensitive one and is currently widely discussed, as it touches upon the segment of the new government organisation and functioning of its administration.

In view of the previous tendency towards centralisation, there was a danger that the disappointment with the centrally planned system in Croatia might lead to the other extreme – recentralisation of the government system – to the detriment of normal political rights concerning local self-government.

However, the three vital development processes taking place simultaneously (reconstruction, transformation, development) simply necessitate the government's effective monitoring role in this phase of the economic and political reform. In this respect, the role of the government is still relevant, particularly as far as the establishment of

the institutional system is concerned, that is, the legislative and regulatory framework which will enhance the transition process and entrepreneurial development.

As far as regional policy is concerned, the Croatian regions opt for re/vitalisation, for more efficient regional policy measures and the implementation of new approaches, mechanisms and instruments of regional and local development. The state can help them in their endeavours by creating some elementary conditions – and not interfering more than necessary.

Open options and challenging tasks

A task with which Croatia is undoubtedly faced with is the issue of defining its new regions. Namely, the recent administrative division of Croatia into a greater number of regional units and a new set of laws related to local self-government and government give grounds for a more efficient governmental organisation, but have only provided the framework for establishing its new regions. Actually, we are referring here to the restitution of the traditional Croatian regional borders – as the outcome of historical, geographical, cultural, economic and other circumstances. Before implementing concrete regional policy measures, the government will have to carry out this initiated process.

Besides, the vertical relations between the government institutions on different levels have still not been precisely defined. It is hardly necessary to emphasise the importance of flexible and harmonious relations and cooperation between local, regional and central government bodies and institutions. Also, besides the vertical connections, the horizontal interlinkage of all relevant developmental, business, financial and government institutions will provide the necessary synergetic effect crucial for a country which is in the process of transition and is creating the guide-lines and strategy for its regional development policy on new grounds.

An aspect which will also have to be on the agenda soon is the issue of institutional capacity building – which has a crucial role in enabling central and local government organisations in managing the transformation process in an effective and efficient manner.

In order to achieve this kind of institutional capacity, it is necessary to strengthen the national institutions, that is, instruments that would be able to initiate, lead, rationalize and monitor the management of the development process of state organisations at the central and local levels. This includes the establishment and rationalization of personnel management systems, and the creation of in-country management and training capacities that address the needs of all ranks and levels of civil servants – including senior management. It is the administrative capacities for the promotion of economic development which also have to be created. The resulting demand for public service training is enormous and new types of administrative expertise need to be quickly built.

As far as the implementation of crucial economic policy measures is concerned, particular attention will have to be given to the following actions on the regional/local level:

- defining of the roles of the local and regional administration,
- development of a flexible institutional support structure (agencies, bodies, private-public partnerships, with the aim of ensuring the most efficient services – legal,

promotion, information, financial, technological, research and development, education etc.),

- creation of financial institutions and mechanisms on the regional level,
- creation of new links between industrial and tertiary activities,
- education and training courses for local and regional officials, policy makers, entrepreneurs, civil servants and administrators,
- development of industrial and information business networks (on the level of the particular region, inter-regional networking within Croatia, on the international level).

These new challenges and tasks ahead of Croatia will be feasible only in circumstances if more meaning be given to endogenous development, indigenous development of local resources and potentials, major involvement and flexible cooperation of local actors, better horizontal and vertical interactions, as well as to the development of local and regional communication and networking on new grounds. After all, the building from "inside" and "below" is a natural reaction against any expansion of the economic system into a world system, a normal defence against all effects coming from the "outside" and "above" (*Baráth-Szaló*, 1990).

Concluding remarks

Due to inherited negative circumstances from the socialist system, as well as the uncertainties concerning the occupied Croatian regions, the creation of the new regional policy is in the very emerging phase in Croatia. The recently adopted package of laws regulating local governments and self-government give these lower government levels new decision-making power and authority concerning local development. They have created the initial framework and favourable environment for the formulation and implementation of local development policies.

The new regional development policy evidently implies a new role of the state. Both recent academic analysis and policy experience advocate strong central governments combined with strong local governments, not only in developed countries, but all the more so in countries in transition. Namely, it is suggested that such options might be a way of preventing the disintegration of the state. In other words, local governments should not be an alternative to central governments – they should go together. In the process of creating the new regional development policy, the key relations are the vertical relations (power relations) as well as the horizontal relations (cohesion).

The transformation process and the adjustment of the economy to the global developmental trends determines, besides other, the new framework for regional development and regional policy, and the experiences of European regional development provide good support and orientations. Namely, the profound technological, institutional and geopolitical changes in Europe put under question not only the traditional policy, but also the theoretical grounds for regional development and policy – and the research as well as policy implementation crucially implies the reconsidering and redefining of the existing theoretical standpoints in our country also. The emerging solutions vary from country to country, depending on its socio-cultural and environmental settings, the living burden of the past, the structure of their economies, political tradition and other historical, civilizational and economic factors. As *Sachs* (1993) recently pointed out, no ready made, instantly applicable, universal models exist. Nevertheless, the solutions – good or bad – will have to be original. Comparative studies and the analysis of experience of other countries should not be neglected. Comparisons are equally inst-

ructive whether they point to convergencies or to differences. Countries in transition have much to learn from studying the recent positive and negative experiences of West European regional development, as well as to learn from each other's endeavours and mistakes. Hence the far-reaching benefits from such a conference as this one.

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37 TOWARDS REGIONAL INNOVATION SYSTEMS IN CENTRAL EUROPE

HANS VAN ZON

The focus of the Central European governments is nowadays upon introducing the macroeconomic and especially the macro financial preconditions which are necessary for a market economy to function. This means creating monetary transparency, introducing competition, liberalisation of foreign trade, convertibility of the currency, introduction of a banking system, etc.

Economic development in the context of a market economy can however also be conceived as innovation processes which occur in the context of a world wide technology race. In such a way, economic development is not perceived as linear incremental development, but as a process of continuous change, adjustment or as learning processes of interdependent economic actors. As you probably will agree centrally planned economies exhibited the antithesis of this kind of economic development.

Although innovation processes develop in a market economy, empirical evidence shows that usually the emergence of local, regional and national innovation systems is shaped by specific policies furthering innovation. Moreover, innovation does not only occur in a network of markets, but also in a network of organisations, firms and institutions, as well as in the context of institutional change.

It became obvious that technology is not a tangible artifact which can be felt, stocked or exchanged, but is a combination of knowledge, of competencies, of equipment and machinery, of organisation and of culture. It appeared that technological change is much broader than research and development. In the developed West, innovation is widely seen now as a social interaction model, fueled by links with customers and suppliers.

It appeared that in technological progress organisational flexibility is a *sine qua non*, but in the context of a minimal degree of cohesion. After the weaknesses of the neo liberal supply side economics became apparent, attention was drawn to those economies which were the most successful, like Japan, the Asian NICs, and to a lesser extent Germany, countries in which the maintenance of the social contract and social and political cohesion is high on the policy agenda. A link came to the fore between social and political cohesion on the one hand and competitive and technological change on the other hand.

During the last decade technological progress has been increasingly analysed in terms of a broader concept, namely innovation processes. The change in terminology also reflects the shift in the character of the analyses, a shift from a purely economic and natural science angle to a more sociological point of view.

In economic science, usually the bulk of economic phenomena is regarded as the act of purchasing and selling. All forms of relationships between firms are reduced to market transactions. Dealing with innovations and the processes generating them implies a shift in the attention from how economic structures and systems are and how they function, to how they change and why. It means a shift of attention from competitive rule to co-operative relationships.

Here, we are dealing with the regions in Central Europe in the narrow sense. In this context it should be known that gradually the geographical dimension of innovation processes in the developed West has been recognised. The study of regional innovation systems pointed to the fact that innovation and learning rests on an extraordinarily complex variety of institutions, social habits, ideologies and expectations, and even firm and market structures which are to a certain extent outcomes of these underlying social structures. These social structures are bound to specific regions.

With the complexities of technological change in the developed market economies in mind, the task of transition to high tech capitalism becomes much more difficult to accomplish. In other words, the main challenge the post socialist economies face is not so much to introduce a market system and private enterprise, but to catch up with the trends of modern capitalist development, that is to introduce innovativeness and elasticity which is possible only in a society which is strongly promoting education and research.

In the regions of Central and Eastern Europe it becomes obvious that the changes in social and economic conditions for technological innovation is lagging behind the creation of the institutional macroeconomic preconditions necessary for a market economy to function. In the first phase of transition, under conditions of economic decline, enterprises are confronted with the quest for survival. State enterprises usually do not react strategically and try to avoid organisational changes. They are hardly considering technological change, and Research and Development is the first area on which they economise. Newly emerged small and medium sized enterprises are mainly in services. Therefore, in the first phase of transition, conditions for technological change seem to deteriorate.

With respect to regional development in Central Europe, it seems that there are many obstacles to transition which cannot be easily removed at the national level. Local monopolies may hinder restructuring, local authorities may squeeze profitable private enterprises, local bureaucracies, persisting in old modes of behaviour, may hamper economic development and local political elites may not co-operate with local economic elites.

The heritage of the socialist past is very resistant. Nowadays, the Central and Eastern European regions are usually in the following respects confronted with the heritage of the socialist past:

- 1) Regions in the administrative sense are weakly developed in Central Europe;
- 2) Mostly, administrative units on the regional level do not coincide with historical regions;
- 3) Under socialism a deregionalisation took place and few intersectoral links on the regional level developed;
- 4) In the regions and localities, social life is often centred around one or a few large enterprises;
- 5) Few small and medium sized enterprises exist;

- 6) In the regions the infrastructure, especially with regard to communications, is underdeveloped;
- 7) Generally, regions in Central Europe are less diversified in their economic structure;
- 8) In Central Europe, discrepancy in development between capitals and other towns and between regional urban centres and the lagging countryside, is much larger than in Western European countries at a similar level of development;
- 9) Due to socialist rule, society became atomised and social and economic life became organised vertically. This complicates the emergence of a region as an organic entity;
- 10) Networks between public authorities, research and development institutions and enterprises in Central Europe are weakly developed.

Regions in both countries are now confronted with the inertia of local power structures, the persistence of the domination of vertical communication channels, economic decline and the need for mega adjustment. All local and regional authorities are confronted with a budget squeeze which narrows the possibility of an aggressive policy at the local and regional level. Centralism of national governments and a weak intermediate level in the administrative structure complicates the emergence of a strong policy at the regional level.

But nevertheless, due to break down of state authority and the development of a local economy and local society, regional and local authorities may increasingly contribute to shaping the destiny of their regions. This is, I think, visible at this moment in Poland.

Often, at the micro level it appears that elements of the old system are often very resistant. Communism had a deep impact at the micro level. Even within enterprises, departments had little contact with each other. Horizontal communication channels were blocked. With the political revolution, the above mentioned blockades at the micro level were often not unlocked.

The core of the problem with transition to market economy in Poland and Hungary is not so much the creation of the institutions for market economy and introduction of new rules of the game, but of a more broad social nature. Attitudes and social structures which were moulded under socialism are not to be changed easily. There is the attitude of learned helplessness, low labour morale, lack of initiative and a broken relationship between citizens and the state. Mistrust is widespread, especially with regard to public authorities, despite the new political regime. This is reflected in very low participation rates in elections.

All this hampers the development of a local dynamic community and it also hampers the emergence of a dynamic local economy.

Therefore, regional development should be conceived as guided local development, i. e. not seen in a narrow economic context, but seen as a comprehensive project of transforming local society and economy. Other than in stable and developed market economies, economy and society can less easily be separated in the policy domain. Local development can and should be guided cautiously. There are instruments to further local development. Especially experiences in less developed economies and lagging regions in developed market economies may be useful. The economic strategy should be that of a networking economy.

The concept of *guided local development* as presented here is in line with the new dimensions of regional policy developed in Western Europe and the United States. The aims and framework of regional development changed since the mid 1970s, since the appearance of the impact of new technologies on the spatial organisation of society and since the role of the regions in economic development became more important vis a' vis the national level. The new policy at the regional level should be understood as a process of collective learning and permanent adjustment. It should be a policy of democracy and partnership.

In the OECD countries the importance of a regional aspect of science, technology and innovation policy has been recognised as well as the importance of a science, technology and innovation policy at the regional level. There is also an increasing recognition that technology transfer is best promoted on a decentralised basis with resources being provided to regional organisations to initiate the process.

In the post socialist countries the scope of manoeuvring for local and regional authorities to influence regional economic development is small but increasing. In the regions a lot of, often hidden, potentials exist which can only be perceived and exploited at the local and regional level. This may be generally true, but especially in the confused situation of transition, in which the central state bureaucracy is overburdened and national authorities often overlook the specific conditions of the regions. At the local level supplementary measures are necessary to further economic development. Although local and regional authorities are confronted with a budget squeeze and economising is necessary everywhere, an adequate policy may unleash productive forces. As argued above, it is certainly not by the working of the market alone that this will happen.

An innovation policy should not only be geared towards the production of world-wide competitive goods. It should be geared towards every innovative activity which may be significant locally and which may improve the general situation of the locality or region. For instance, the housing market may be organised in a more flexible way, better adjusted to the needs of the people; public services may be reorganised in order to better serve the population. Non-productive or counterproductive activities may be stopped, locally bound markets may be reorganised. New, local markets may be created for new goods (i. e. various kind of new services which were unknown under socialist rule such as consultancy agencies, software houses etc.).

An innovation policy may contribute to exploit hidden resources. For instance, the lagging regions in the North East of Poland may exploit natural resources by attracting tourists, even from abroad. Low budget tourism does not necessarily require high level infrastructure. For instance, unused airports of the former Soviet army may be exploited.

The vicinity of prosperous Western countries may be exploited by border regions, furthering co-operation by opening more border crossing points etcetera. An innovation policy may encourage artists to make use of the vicinity of a prosperous Western market.

An innovation policy should contribute in establishing a regional innovation system.

Not that such a system is tangible or can be precisely circumscribed. It is more a flexible regional socio-economic system with some coherence, able to exploit the re-

sources of the region, exploiting also its distinctive traits, adjusting production processes and products to the local market and local specialities.

An innovation policy conceived so broadly, is difficult to distinguish from other policies at the regional level.

Apart from traditional instruments for economic policy at the local and regional level, local and regional public authorities, here the following instruments for de blocking impasses in economic development are emphasised:

- the foundation of innovation centres, business incubation centres and technology parks,
- the organising of self-help training courses to further economic development, eventually with the help of external experts,
- the furthering of cross border interregional and twin city co-operation,
- the reorganisation of public services in the direction of a service infrastructure conducive to innovation and technological change

At local and regional levels *innovation centres* may create new modes of operation between local authorities, new entrepreneurs and universities. These centres may even fulfil a role in the bringing about of regional cohesion.

All this depends on initiatives at the local level. Of course, many will say that it is difficult to start up such initiatives due to a lack of money. But it may primarily be a question of bringing together already existing resources and building upon already existing networks. For instance, scientists of local universities may use part of their time, and maybe that of students, to be active in innovation centres. Local authorities may provide already available empty buildings.

At the regional and local level it becomes clear that major obstacles in the transition to market economy are *obstacles of a social and psychological nature*. With the help of self-help training courses these problems may be diagnosed and relieved.

There are already some interesting experiences in this field. It appeared that often the problem in a specific locality remained hidden in the sense that it was put under taboo and was only partially perceived by the involved actors because the problems could not be discussed. They became traumatised and therefore also paralysed and inactive. One method to reveal these problems is to give self-help courses to cadres within selected regions or towns, bringing them together around a certain problem. This may be regional economic development in general or the development of one sector in particular. In both Hungary and Poland there is already some experience with these self-help courses. In these courses also the method of psychodrama is used to reveal unspoken conflict material and to enable the participants to speak about it. In such a way, with the help of participants, the problem of a region may be diagnosed. Moreover, during the brain sforming sessions, measures may be discussed to overcome the problems.

Technology transfer may be furthered by twin city relations and co-operation with other regions, especially in the more developed Western countries. As I could observe in Poznan and Szeged where I did field research, east-west interregional co-operation proved to be a very efficient channel for technology transfer. For instance, the partnership between the Dutch province of North Brabant and Poznań involves not only the exchange of delegations of high officials, but also an intensive co-operation between the Chambers of Commerce, universities and professional organisations. The

province of Brabant has even established a permanent office in Poznań which mediated in the dozens of partnerships between firms from North Brabant and Poznań.

In general, international co-operation between local organisation of craftsmen, local chambers of commerce, universities and schools, etcetera, may be conducive for technology transfer. A local innovation policy can further these international contacts.

With respect to international scientific co-operation, it may turn out, as was the case in the ZC, that international scientific contact; may serve as door openers for industry. In order to involve scientists in regional development, a certain autonomy of universities vis á vis national authorities may be important. With respect to the transfer and diffusion of new technologies, pilot and demonstration projects may be of great relevance. For instance, model farms may be established by local or regional authorities, especially if such initiatives are not being taken at the national level. For instance, in Csongrád a model farm has been founded with the help of Dutch and New Zealand counterparts.

Municipalities in Central Europe are still confronted with a very inefficiently operating local bureaucracy and public services where mismanagement and waste of resources is rather the rule than exception. Although municipalities are forced to economise, even new activities, conducive to innovation, may be undertaken. For instance, both in Poznan and Szeged, relatively well developed towns, belonging to the most dynamic ones in Central Europe, up to now no measures have been taken to install heating regulators in the houses of the municipality. Now, the tenants regulate temperature by opening the window, which means an enormous waste of energy.

The municipality or provincial council may open an information centre about the town or region, also providing statistical information useful for foreign investors. Nowadays many essential data are lacking. Local or regional authorities should improve the collection of regional data, also in order to further economic development.

The municipality can also start up various training courses which educational institutions can not provide.

The municipality can take numerous initiatives to further tourism. Often with very limited means, the attractiveness of the region for tourists may be improved, especially for low budget tourists. Cultural events may be organised during summer time and also summer courses for foreign students, special holidays may be organised using local expertise.

Allowing regions of Central Europe to come to an equal footing with the most advanced regions in the world, much more is needed than the introduction of "market economy". It requires the joint transformation of society as well as economy. This transformation can and should be guided. Especially on the level of regions and localities there are ample opportunities to further, what can be called from an economic point of view, a networking economy. In the present circumstances, the furthering of co-operation, i.e. co-operative networks, may be as important as the furthering of competition. Social, economic and monetary transparency is needed and this can be obtained with the emergence of a network of horizontal communication channels. These communication channels should also be inserted in international streams. Guided local development may lead to the emergence of regional innovation systems, which may enable economic development and technological change.

PART SIX

**INNOVATION, TECHNOLOGY AND
ENVIRONMENTAL POLICIES**

38 SPATIAL DEVELOPMENT AND TECHNOLOGICAL CHANGE – EVALUATION OF POLICY INSTRUMENTS

WALTER B. STÖHR

Introduction

Technological development is increasingly considered one of the key factors for regional development. Two questions are often raised in this context, namely the conditions for a “technological take-off” and the degree of diffusion and pervasiveness of new technologies. At the same time technology policy cannot be implemented only from the national level but must aim at mobilising innovative resources also at the regional level. Both from the side of regional development, as well as from technological development a regional technology policy is of great importance. (*Nijkamp-Stöhr, 1988*). Only in this way can self-sustaining regional technological innovation be achieved. There exists a mutual interrelationship between regional development (or the spatial distribution of activities) and technological change (usually the introduction of new technologies): the introduction of new technologies (e.g. in the telecommunications sector) changes accessibility over space, whereas the locational characteristics of a region (e.g. the availability of universities, R&D centres etc.) influence the introduction of new technologies.

Traditional regional policy usually concentrated on offering incentives for capital investment and increasing the mobility of capital. In contrast to this, innovation-oriented regional policy in future must focus on upgrading labour and professional qualifications and on promoting entrepreneurial initiative (*Stöhr, 1987, 1990*). Traditional regional policies furthermore were usually initiated by the national government and evidence shows that these centrally initiated policies hardly were able to contribute to broad territorial innovation, particularly in peripheral areas (*Nijkamp-Stöhr, 1988*). The question then is what triggers, and what sustains technological innovation in peripheral areas? Environmental conditions are certainly an important, but not sufficient explanation (such as in the “sun-belt” areas of North America and Southern Europe). In general, monocausal explanations have proved insufficient: further important factors for innovation are informal personal and institutional networks creating synergy effects, close co-operation between local government, local universities and the business community as in the case of the Japanese Technopolises (*Kawashima-Stöhr, 1988*). Other important prerequisites are the systematic upgrading of a competent labour-force in the region, intense local interactions in information exchange, inter-sectoral economic relations, etc. These latter prerequisites are particularly important

for regional small and medium-sized enterprises which are less able to sustain such interactions over large distances to the outside.

Technological innovation can emerge spontaneously or be induced. In many areas technological innovation has in the past taken place spontaneously and we shall call these (*spontaneous*) *technology or innovation complexes* (Stöhr, 1986a). Like *Perroux's* (1955) spontaneous "growth poles", they of course also have not emerged automatically like "manna from heaven", but by decentralised initiatives of economic decision-makers. Originally, from the functioning of spontaneous growth poles the *policy versions* of induced growth centres were derived, which in a technology oriented policy corresponding to *research/science parks*, usually induced by governmental or other institutions at different levels.

The case for local/regional technology policy

Centrally implanted technology policy, such as R&D directly sponsored by the central government, (frequently concentrated in defence areas) has often proved to have little positive effect on productivity. Equally, economy-wide technology policy has little positive effects, as no universal policy covering firms in different markets and technological environments is likely to lead to an efficient rate and direction of technological innovation because of different competitive pressure and market opportunities, different technological opportunities, and different availability of university-sponsored basic and applied research between regions.

On the other hand, the development path of local economies is considerably determined by their capacity for sustained innovation and self-renewal. *Nelson-Winter* (1977) argue that it is more important to build institutions that can "allocate resources appropriately over a wide range of circumstances and time" than it is to achieve particular allocations at any one time. Such local institutions will also be able to "specifically support what is possible and available locally, rather than attempting to create glamorous microelectronics and gene-splicing research centres in every town" (*Wiewel*, 1984).

Technological innovation based on microelectronics, depends to a large extent on whether the required technological, organisational and social transformations can actually take place in the entire system of economic and human activities. If only a small number of "high-technology" sectors are created, whereas "traditional" sectors remain widely untouched, technological disparities will increase rather than decline. The same would be the case if only a few large enterprises in specific sectors would take advantage of (or monopolise) technological innovation, whereas the medium and small enterprises would hardly be affected. Similar inadequacies would emerge if only the highly developed core regions of individual countries would be able to take advantage of these innovations whereas the remaining areas would hardly be touched by them.

The crucial question therefore, is to what extent innovation can be made pervasive and can be made to benefit an entire socio-economic system. This depends to a great extent on the level at which innovative action is taken, on the target actors addressed (external or regional), and on the interaction (synergy) between different actors at local/regional levels. The following examples are taken from *Stöhr* (1988).

Major patterns of "induced" science parks and of "spontaneous" technological innovation complexes

Like the earlier growth centre policies, technological innovation has recently also been induced mainly in spatially concentrated form. This has been done at different levels and by different actors. Some of these efforts have been externally implanted by either central government or by large multi-locational/-national firms. Others have been locally/regionally initiated by local government and universities, or have been initiated by local academics and entrepreneurs. From the three regional high-technology approaches identified by *Luger* (1984), they respectively tend to emphasise recruiting high technology plants located elsewhere, to technologically advance resident "old line" business, and to incubate home-grown high-tech companies. The permeating effects differ accordingly, and will be discussed in subsequent subsections.

Central government/large firm(s) implanted science parks/cities

Two outstanding cases will be dealt with here by way of example: *Tsukuba Science City* was established by the Japanese central government at a distance of about 100 km from downtown Tokyo to house the research departments/institutes of central government agencies as well as a university, the nucleus of which was also transferred from Tokyo. Despite its relatively long period of existence of 15 years, Tsukuba has maintained an enclave-like character in many respects: geographically it remained rather isolated due to cumbersome access from Tokyo and other parts of the country; sectorally it has until recently not been able to attract major industrial or private R&D activities and only in the past 2-3 years has progress been made in this direction. The international technology exposition, Tsukuba Expo in 1985, was to give further impetus towards attracting large company R&D activities. Spin-off effects for small enterprises, consulting services, local risk-financing companies etc. cannot be foreseen as yet.

Sophia Antipolis in Southern France is a further outstanding example. It emerged on the basis of a concentration of R&D activities of large corporations, such as IBM, Texas Instruments, Société Nationale Industrielle Aérospatiale, Thomson, in the 1960s, which were attracted by the environmental advantages of the Côte d'Azur. In 1974 Sophia-Antipolis was created as a "city of knowledge and wisdom", based on the initiative of leading personalities from Paris (Ecole de Mines, various ministries). Additional headquarters of international firms were induced by DATAR to locate there (*Perrin-Kritly*, 1986) along with the location of laboratories and research centres of universities and the National Science Centre. Separate from it, an industrial park, Valbonne, was then created for production activities. In 1985, both these units were integrated in a new organisation "Valbonne Sophia Antipolis", by a contract between the central State and the region. The objective of this new organisation is to bring the area to "maturity" by strengthening its public research and teaching (including university) potential and the cross-fertilisation between research, training, product development and the availability of technological counselling and financing for innovative new and existing enterprises. In recent years about a dozen small new enterprises have emerged "by incubation" from among the collaborators of large enterprises, or from graduates of the Grandes Ecoles, in specialised services. R&D and

qualified production in informatics, bio-engineering, etc. Although these spin-offs at present are estimated to represent only one fifth of the total production capacity of the area, its share is reported to have an increasing trend (*Perrin-Kritly*, 1986).

These two examples show that even with the dominance of central technological initiatives (external to the region), region permeating effects may differ depending on the breadth of activities promoted (R&D and/or other services production, internal vs. external target firms, etc.) and on the local organisational structures available or created.

Local government and local university initiated science parks

A well-known example is North Carolina Research Triangle Park (R.T.P.) created in 1959 at the initiative of the State Governor and three neighbouring universities (Duke University, University of North Carolina and N. C. State University). The major breakthrough came with the location of major national research centres such as the National Environmental Research Centre and the National Institute of Environmental Health Sciences in 1965/66. This was accompanied by the location of large corporate research facilities there, and of production facilities near the park of companies such as IBM and Borroughs Wellcome Company (*Premus*, 1985). Although, R. T. P. was initiated regionally, it focused primarily on the attraction from outside. There appears to have been little spin-off to other firms or sectors in the region however, which predominantly still "use traditional technologies and low-skilled workers, most notably in the textiles, apparel and furniture industries, -(and which) - ...alone account for 50 percent of manufacturing jobs" (*Luger*, 1984). This is attributed to the fact that North Carolina's high-tech development strategy was oriented mainly towards recruitment of outside firms and less towards the modernisation of existing firms or the local emergence of new firms.

The Japanese Technopolis Policy is another well-known example where local government, local university and (mainly local) enterprise interact closely. This local interaction and the complementary support given by the central government has been analysed by this author elsewhere (*Stöhr*, 1986b; *Kawashima-Stöhr*, 1988, *Stöhr-Pönighaus*, 1992). Development in a number of these Technopolis sites started by attracting branch plants of large external (international or Japanese) high-tech firms, but in some of them such as Oita, it appears to have been possible in the mean time, to diversify the structure substantially by the creation of local service firms, and by the promotion of small/medium indigenous high-tech firms. Further analyses on these aspects are hoped to be available soon.

Comparative analyses of university and local government-related science parks have been made for several countries (*Krist*, 1984; *Levitt*, 1985), but they hardly include factual data on the questions raised in this and the following sections of the present paper.

Local enterprise initiated "spontaneous" innovation complexes

Such 'spontaneous' local/regional enterprise initiated innovation complexes are likely to be much more numerous than those in the preceding categories. Historically because, until the State became directly involved in technology policy, most technological innovation took place by "spontaneous" entrepreneurial initiative. Even in our

present time however, a great number of cases remain where regional technological innovation takes place "spontaneously" by the initiation of local entrepreneurs. Often this can be considered as an endogenous survival strategy of locally rooted (frequently medium/small) entrepreneurs in disadvantaged areas where government policies are not very effective. For these enterprises and regions it is an alternative to attempting to develop via the attraction of branch plants of external firms as described above.

Two relatively large-scale examples of such regional innovation complexes of medium/small scale enterprises in peripheral areas have been analysed by this author elsewhere, viz. the experience of the Mondragon Co-operative Federation and of the so-called "Third Italy" (Stöhr, 1986a). There is certainly a larger number of such examples some of which have recently been systematically compiled and analysed, as they constitute learning experiences of great value, particularly on how to create regional innovation with little central government or other external inputs. Some of them have been analysed in Stöhr (1990).

*Local academics and potential entrepreneur initiated "start ups" and
"incubator" science parks*

The non-institutionalised start-up of potential entrepreneurs of the initial Silicon Valley type, characterised by academic graduates becoming entrepreneurs, by high-tech sectors, small firms and fierce competition, are widely considered a matter of the past in their pure form. Increasingly they seem to have been dominated by large companies farming out routine activities to low wage areas and countries and gaining monopoly control over new technologies and markets (Dyckman, 1985). In mixed form, these small enterprise incubator functions are retained however in many of the German "Gründerzentren" (Krist, 1984).

**A framework for evaluating the permeating
effects of innovation**

Let us now add the important question of how broadly based technological innovation can be introduced in a region, i.e. how widely it is able to permeate an entire region. Considering the potentially pervasive character of new technologies, and the general objective that technological development should not aim only at restricted enclaves of an economy and society, it seems important to evaluate the degree to which different policies for technological development benefit broad strata of economy and society.

The main elements of such a framework are: innovation actors external to the region (external training and research centres, central government, and multi-regional firms) as well as actors within the respective regional system. This regional system contains the potential actors of a "regional innovation complex" and the usually not innovation oriented components, such as traditional regional firms, consumer oriented services, purely processing branch plants and sub-contracting firms. The actors of a potential "regional innovation complex" (Stöhr, 1986a) are regional applied research centres, regional consulting and marketing firms, risk financing institutions, etc. Regional universities/polytechnical schools. Local or regional government can potentially play an innovative role, which however is not always fulfilled. The importance of the synergetic interaction amongst them and with regional production units has been shown in Stöhr (1986a).

Externally induced regional innovation

In many cases, innovation strategies rely mainly on the recruitment of external high-technology firms (or branches thereof). Important questions in these cases regarding their permeating effects are: if external firms locate only pure (routine) processing plants ("extended work benches") in the area concerned, without also locating their own R&D/management functions, do the innovative effects emerge for regional subcontracting firms? And if external firms locate branch plants in the area, to which extent do they adapt external innovation to specific products or specific regional conditions, and also locate their own R&D functions in the area; are they using regional management and R&D consulting firms; are innovative effects emerging for regional subcontracting firms or other innovative regional firms; are technical relations emerging with regional research or training institutions? If external firms locate an innovation-creating plant with its own R&D or a pure R&D centre, are relations with regional research or training institutes emerging; and are relations with innovative regional firms and/or with regional management/R&D consulting firms emerging? If sometimes large firms create small innovative "mission" satellites in order to develop new products or to test new processes, what are their effects in the above mentioned areas?

A further question in all above cases is, in addition innovative independent firms or branch plants within the region, what is the extent of innovative effects on the traditional, non-innovative sectors within the region.

Regionally induced innovation

In many cases however, innovation can also be locally/regionally induced, e.g. by local firms, local academies/universities and potential local entrepreneurs. In these cases the relevant questions will be: to what extent do local high-tech firms also have an innovative effect on other sectors in the region. Have relations between regional firms and regional research and training centres, regional management and R&D consulting firms, and regional risk financing institutions emerged and contributed to this innovation? Have regional innovative firms been able to maintain their independence? If they have become integrated (bought up etc.) by large external firms, to what extent have they retained their innovative effect on the region?

A further question relevant to all above types of innovation would be whether the technological upgrading has been restricted to the locality of a science park, or whether it has also had a positive impact on other, particularly neighbouring areas and regions.

Particularly in peripheral areas, broad technological innovation will tend to always require a combination of externally derived and endogenous regional factors interacting as a network. The main components of such a network are educational and training institutions, R&D, technological and management consulting, risk financing, production and locally rooted decision-making functions. Should one or the other of these functions not be available within the region in sufficient quality, they can be substituted by external ones. The policy objective however should be to internalise them, stepwise within the region in order to obtain a maximum of synergetic effects (Stöhr, 1986).

In conclusion, important criteria for the success of technological innovations would be:

- a broad technological upgrading include, (i) both high-tech and traditional sectors (ii) different sizes of firms such as large, medium and small ones, (iii) not only the science park area concerned but also neighbouring localities and regions,
- a broad upgrading of job qualifications, including not only highly skilled but also medium and lower qualification strata of male as well as female jobs, avoiding the frequently encountered "bifurcation" of labour markets in high-tech regions,
- a broad increase in activities which serve as a basis for self-sustaining technological upgrading, particularly private and public R&D activities, training, consulting, financing and organisational services able to sustain technological and organisational change in an interactive way,
- a retention/increase in competitiveness of externally oriented economic activities,
- a retention/increase in number of available jobs,
- a retention/increase in existing wage levels,
- a retention/increase in levels of environmental quality, including natural and built-up environment, traffic conditions, air and water conditions, etc.

Further important criteria for sustained success of these innovation processes are the establishment /improvement of organisational structures for:

- the solution of potential social conflicts at plant, regional or other levels especially regarding the organisation of work in connection with technological innovation; the creation of new jobs or other activities if technological change reduces the number of jobs available; the distribution of income deriving from technological innovation; and the technologies available and useful for firms and activities in the region,
- the constructive and mutually stimulating interaction between key organisations/actors for innovation within the region, particularly local/regional government, regional training and research functions, regional R&D and managerial consulting services, financing institutions, manufacturing firms and labour organisations.

These latter characteristics are at the same time preconditions for an increasingly self-sustaining process of regional innovation.

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39 SMEs IN POLAND – DEVELOPMENT DURING RECESSION

PIOTR DOMINIAK–FRANCISZEK BLAWAT

In 1990 all economic functioning in Poland found themselves in a completely new situation. A rapid increase in prices and competition from imported products created a demand barrier. Private companies were small and weak. They were mainly manufacturing old type products of low quality. The products, for which they could previously find buyers under conditions of constant shortages, turned out to be not saleable under the new macroeconomic conditions. Exports could not improve matters a great deal, as the Soviet market, which had previously absorbed everything regardless of quality, was in the process of collapsing rapidly. An increasingly deep recession, coupled with high inflation, created extremely unfavourable conditions for newly created private companies.

Additional difficulties were caused by the low level of savings on the one hand and high interest on bank borrowing on the other. Most of the new entrepreneurs only had very limited capital and could not rely on banks for their funding. Under those conditions they looked for areas in which a quick turnover of small capital could bring them returns that were higher than the rate of inflation. It is not surprising that a large proportion of companies opted for commerce (including foreign trade), and some of the “older” manufacturing and service companies (i.e. formed before 1990) diversified into wholesaling.

Despite the problems described above, the share of the private sector in the GDP is increasing rapidly. The estimates for the structure of the GDP are not fully credible. It seems that the share of the private sector is under-estimated. Nevertheless, the increase in its contribution from 28.6 per cent in 1989 to 42.1 per cent in 1991 is worth stressing. The above change results from two processes: the creation of new private companies and the privatisation of state-owned enterprises. The first encompasses mainly small and medium size companies, while the second includes medium and large enterprises (with some exceptions).

Table 39.1

The share of the private sector in the GDP in Poland

Year	GDP
1989	28.6
1990	30.9
1991	42.1

Sources: Roczniki Statystyczne GUS 1991, 1992; Poland. 1992.

Table 39.2

The share of employment in the private sector, 1989-1992

	1989	1990	1991	1992
Total (private agriculture excluded)	31.2	33.6	40.3	44.4
Industry	29.1	31.2	35.8	41.4
Construction	37.4	42.1	59.5	71.8
Transportation	14.3	15.2	26.0	23.1
Trade	72.7	82.2	88.3	90.5

Source: Informacja o sytuacji społeczno-gospodarczej kraju, rok 1992.

Table 39.3

The share of the private sector in sales

	1991	1992
Industry	24.6	31.0
Construction	62.2	77.7
Transportation	25.2	39.3

Sources: Polish Economy in 1990-1992.

The first process takes place in exceptionally unfavourable conditions. Both the economic and the legal freedom to undertake business activities appeared for the first time in an extremely unfavourable market situation. All over the world, the first two to three years of functioning for a new business are crucial to its survival. In Poland those difficulties are further compounded by additional macroeconomic factors. If such a major growth of businesses is observed in this period, it reveals what high potential for entrepreneurship is available in the country. This fact seems to contradict common claims that Polish society is passive and somewhat lacking in dynamism. At least part of society, and indeed a fairly significant one, is taking matters into its own hands. Those people do not expect a helping hand from heaven. However, one must objectively admit that there is a shortage of active people in areas with high levels of unemployment.

Quantitative boom

Over the last three years there has been a big change in the number of companies as well as in their structure. Liberalisation of the framework of commercial law has caused a mass expansion in newly created business units. Of course, there are large differences between the two different sectors. In the private sector there has been a continuous upward trend over the whole period while the public sector has shown large fluctuations.

As far as the private sector is concerned, the most reliable data relates to incorporated businesses, joint ventures and co-operatives. It is, however, accepted that there

might be some gaps here as the data presented in *Table 39.1* originates from the REGON system. It is not certain how many of the firms registered in this system continue to trade today. Nevertheless, the data presented here reflects sufficiently the general trends.

Table 39. 4

	<i>Number of economic units*</i>			
	1989	1990	1991	1992
PUBLIC SECTOR				
State enterprises	7,337	8,454	8,228	7,342
Municipal enterprises		32	741	534
Companies with the sole shareholding of the Treasury		248	376	764
Companies with the participation of state legal persons		1,135	909	825
PRIVATE SECTOR				
Incorporated companies	15,252	33,239	47,690	59,077
Joint ventures	429	1,645	4,794	10,131
Cooperatives	16,691	16,650	17,314	18,284
Individual business establishments	813,485	1,135,492	1,420,000	1,630,600

* End of year.

Sources: Zmiany strukturalne grup podmiotów gospodarczych; Informacja o sytuacji społeczno-gospodarczej kraju, rok 1992. Statistical Bulletin CSO; Rocznik Statystyczny GUS.

Private limited liability companies are a very common form for business activity. Amongst their advantages, the main one is that the liability of business owners is limited (*Katowska-Rusiecki*, 1993). In 1990 their growth rate was at 118 per cent. In the two following years, the growth rate was respectively 43 and 24 per cent. In real numbers the fall in their growth rate was much lower. One of the possible barriers could be the increasing requirement of capital. In 1993 a further increase is possible (four-fold) both for a private and for a public limited liability company. If the restriction applied equally to previously incorporated businesses the number of those companies would be drastically reduced.

Joint ventures are usually formed with foreign partners from Western Europe. Their number remains relatively small. It was only in 1992 that a marked improvement in their number was noted. Apart from a few exceptions, most of the joint venture companies are relatively small. The exceptions include companies formed with big multi-nationals, like FIAT, ABB, Philips and Coca-Cola. Foreign capital entering Poland in this way is much smaller in comparison with that entering ex-Czechoslovakia and Hungary. The resistance of foreign investors is caused mainly by fears of political instability, high taxation, high interest rates and unclear privatisation issues.

The largest numbers of businesses operate as sole traders, or as partnerships of individuals. The large majority are either small or very small (up to 5 employees).

Amongst them are also those which do not employ anyone. The owner only works part time or occasionally at the business. However, there are some large firms in this group, i.e. employing a few hundred people, which are the properties of a single individual or a civil partnership. It is therefore a very heterogeneous group. Its common feature is that all of those units are registered by the relevant organs of the local authorities.

The number of those businesses has increased by 100 per cent in the last three years. In 1990 their number grew by 40 per cent, in 1991 by 25 per cent and in 1992 by 15 per cent. In real numbers the growth in the above period was as follows: 322,000–285,000–211,000, respectively. The trend was thus similar to the growth rate of incorporated companies. The structure of growth was, however, highly differentiated. From the total number of 211 thousand newly created businesses: 79,000 began their trading in the so-called non-material services, 75,000 in trade and commerce, 17,000 in construction and industry, 19,000 in material services, 11,000 in catering and 11,000 in transport. On the other hand 2,000 companies operating in the industrial branch ceased trading.

The branch structure of organisations according to their legal status is markedly different in the private and public sectors. The private firms operate mainly in commerce (34 per cent), in industry (19.2 per cent) and in construction (18.9 per cent).

The trend seems to be for an increase in commerce and a decrease in industry. This is clearly a result of difficulties experienced by both existing and prospective entrepreneurs. It is difficult to set up and to survive in manufacturing with little capital. Commerce with a quick turnover offers the greatest opportunities, even in times of high inflation.

Industrial SMEs

There is far less precise information about features of small private firms. Particularly we know very little about industrial enterprises. Our research conducted within the international ACE project led us to describe a typical small private firm acting in consumer goods industries (*Small ...*, 1993). It is a company that belongs to natural persons and does not have, legal personality. Usually it is located in big (over 100,000 inhabitants) or medium (22–29,000) sized town. In the majority of cases the number of employees is below 20.

Entrepreneurs are well educated. They are men aged 31–50 with secondary or higher technical education. But employees working for small firms are mostly unskilled workers. It could be a barrier to the usage of new technologies in the SME sector.

Starting our research, we expected to find very poor technical equipment in interviewed firms. We knew a certain stereotype of an small industrial business, functioning among the public. It was the following: a small company operating in a shed, garage etc., owning 1–2 machines, most often second hand ones. Its technology was obsolete and the product was usually characterised by very poor quality standard. The results surprised us a bit. Of course, we did not find this sector very modern or very innovative. But some new phenomena may be observed even with a naked eye. Private companies are building or renting new facilities, many of them care for their appearance, visual advertising and so on. Information obtained from interviewed firms

allows us to draw quite optimistic conclusions. Although very new equipment is scarce, over 40 per cent of machinery is less than 5 years old. As little as 21 per cent is over 10 years old. The results concerning purchase of the second hand machines are a similar surprise. It turned out that over 40 per cent of firms do not have them at all.

The fact that so many enterprises have got only first hand machinery and that the average age of technical equipment is low, can only indirectly be the grounds for an assumption about their technical level. It is very difficult to evaluate this level unequivocally. There is no one universal measure, absolute or relative. Being aware that owners' opinions are a very imperfect criterion, we decided to ask them to assess this level. The professional education of entrepreneurs, that was mentioned above, led us to consider their opinions, which seem to not be worse than e.g. selected technical parameters, which in turn could not be compared in different branches. As expected, most of entrepreneurs evaluated their equipment to be at the "medium" level, but 11 per cent of business owners estimated the level of the machinery that they use to be high. In total 80 per cent of all questioned business people determined this level to be "high" or "medium". It is worth stressing that Polish businessmen are rather apt to complain and play down the advantages of their companies. Of course, it is necessary to add that the machines in possession of the analysed firms were mostly made in Poland. Probably the owners questioned had mostly adopted as their reference point the technological level of equipment used in companies of a given branch in Poland, and not the level of the latest achievements of world technology.

Even though the results of our research are surprisingly good, it does not mean that the SMEs sector plays a leading role in introducing technical innovations to the Polish economy. It is dynamic, but its financial and organisational capabilities are rather small.

The last report prepared by Polish and foreign experts, which was published in May 1993 (*Inwestowanie...*, 1993) indicates many obstacles to investment in technical innovation. Among external factors the underdevelopment of mechanisms for the transfer of technologies and shortage of money for financing R&D are mentioned there. Internal factors are insufficient awareness of the necessity of investing in technological innovations and improvement of quality and design. We do not think these factors are unimportant, but the conclusions drawn from interviewing over 150 entrepreneurs show that the shortage of capital is absolutely a principle barrier.

The whole national economy suffers from a shortage of capital, so it is not only problem for small enterprises. We consider that even in such a generally difficult financial situation there is a chance to inject more new technologies into SMEs. It requires the existence of institutions or organisations that would act as intermediaries between these firms and technical universities and other research centres. Many bodies, national, regional and local, that were created to support small business, dealing mainly with legal, financial or organisational problems. Maybe the lack of a tradition in this field is an explanation for such a situation. Entrepreneurs consider academic staff to consist only of scientists not practitioners. It is partially true that many people at universities still think that only theory should be a subject of scientific interest. Such mutual biases make contacts between these two groups (businessmen and scientists) more difficult and less efficient. To change situation it is necessary to establish a network of units located outside universities whose aim would be to collect

information from scientific institutions about their work and information from firms about their needs and expectations. Matching partners would be the next step of their activity. Such centres should be financed jointly by universities, chambers of industry and commerce, state agencies and local authorities. Without breaking barriers between science and practise SMEs will not be a factor in speeding up economic growth.

Another problem that hampers technological changes in small and medium size firms is the underdevelopment of subcontracting system. The co-operation between big enterprise and small businesses is a very effective and natural way of transferring innovations in highly developed countries. In the Central and Eastern European economies such systems almost do not exist. The big state owned companies have great financial problems and many of them are insolvent. The majority of small firms are newly born. Moreover for many years, public and private sectors, very big and very small enterprises, were acting separately for political reasons. Now both sides have to establish relations starting from the very beginning. First attempts (Koszalka, 1993) show that it will take quite a long time to built them.

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40 ENVIRONMENTAL POLICY AND REGIONAL DEVELOPMENT IN HUNGARY

GÁBOR SZABÓ

Researchers, practitioners, people and who work in the state administration or at local governments dealing with the field of environmental protection and regional development need to co-operate so that sustainable development can be realised.

Co-operation depends basically on like-minded-approaches which can only develop in the case of mutual good intentions and a sharing each other's thoughts.

I am glad that this aspect of regional policy is also present on the topic list of this Conference and also thank you for the chance to give my opinion about this question

Furthermore for the lack of time I will only give a brief outline of the future situation, based on the present situation and the document containing the Regional Development Act and the principles of regional development support.

The present situation of environmental protection and regional development in Hungary

Based on my twenty-year-long research studies, one and a half year-long work at the Ministry, and my experience gained while working for the Committee of Environmental Protection at the Parliament, I claim that environmental protection as such does not appear amongst governmental priorities in Hungary today, thus completely deviating from the facts written down in the "National Renewal Programme" of the Government.

Characteristically the government working plan that was accepted after the Rio Conference (for creating the conditions of permanent economic growth) "considered neither environmental nor regional aspects as required".

The Ministry for Environment and Regional Policy has an extremely weak ability to enforce its interests, although its relation system with the Committee of Environmental Protection at the Parliament and also with non governmental organisations has improved a lot recently.

Environmental protection has got a very out-of date system of legal regulations. The new Act of Environmental Protection is just now being prepared, and the lack of clarity of the scopes of authority among the ministries takes a great deal of time and energy both from management and employees.

As far as the situation of regional development is concerned I quote the thoughts of *Faragó*: "Today, there is not such an effective one that would guarantee to set up a

single regional development policy, and would also create the missing institutions for regional development, and would provide the means needed for its achievement. Legal rules do not set the system of institutions and the means necessary for the management of regional development. In addition they do not regulate the different scopes of authority. That is why plenty of inconsistencies come onto surface every day during the implementation of the multi-level policy" (Faragó, 1993).

I agree with the quotations and find them applicable to environmental protection as well.

On the basis of the above mentioned, it is unfortunately understandable that these two specific fields came into conflict with each other even within the ministry. The lack of concepts among the upper level leadership, the lack of clarity as to inner and outer scope of authority, and financial difficulties deriving from the ministries having been treated as a governmental pariah, through the establishment of the "Agencies", led to an inner disintegration instead of the necessary co-operation.

The issue that the operation of the two specific fields within one ministry is not very successful, has already been raised. In connection with this I think the conditions during the past three years made it impossible to carry out *hannonical* and integrative joint work.

Since there are a lot of arguments for mutually supportive co-operation in the two specific fields, as far as I am concerned we should make efforts rather to set up – with governmental responsibility of course – a suitable legal institutional and financial framework, rather than to separate them.

Environmental aspects in the document related to regional development

The Agency for Regional Development at the Ministry of Environment and Regional Policy completed the Regional Development Act, in which the intention to co-operate with the specific field of environmental protection is definitely present.

While among the aims of regional development the co-ordination of social, environmental and economic interests is emphasised. Among the unsolved problems the emphasis is put on how to sustain the balance of society, economy and environment.

Creating harmony between the production goals and natural resources also shows an environmentally friendly attitude.

On the other hand it is remarkable that the idea of decreasing the divergence in the burdening and utilisation of environment has not even appeased amongst the possibilities aimed at decreasing the disadvantageous differences and the undesirable regional differentiation.

Although the draft of the parliamentary resolution, entitled "About the Principles of Regional Development Support and the Categorical System of Conditions for Selecting the Areas to Be Supported", says: "Only such development investments can be supported which do not exceed the maximum limit of ecosystem utilisation", priorities referring to 1993–95 do not reflect an ecologically friendly regional development.

Practically only those investments fall into the latter category that promote the protection of the natural value in protected and would be protected regions where agricultural exploitation could take place as well.

Those regions which meet the following requirements of the government regulation can be supported by the Regional Development Fund:

- regions that are considered underdeveloped from both social and economic view point, according to a criterion system, set up for three years,
- those low employment regions, where the unemployment rate was significantly higher than the national average in the previous December.

Hence severe environmental pollution, that damages the utilisation of the environment in a given region is not sufficient reason to get the support provided for regions in disadvantageous situations.

Would be supported regions are selected according to the level of how underdeveloped they are. This level is defined by 11 indices, none of which is related to either environmental or nature protection.

Even the use of the index of per capita gross domestic product (GDP) to define underdeveloped areas cannot be considered an extensive solution in this respect.

From the point of view of environmental protection I would consider the index showing the tendency in net economic welfare (NEW) to be applicable for measuring gross domestic product.

The applicability of this index, however, has not been elaborated even in the highly developed market-economies.

Summarising what I have said so far, despite of the clear good intentions, environmental and nature protection interests are expelled from regional development priorities by industrial and human resource management.

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41 DATA BANK FOR WASTE MANAGEMENT IN HUNGARY

GEORGE J. HALASI-KUN

Introduction

One of the most significant issues in waste management and especially in hazardous waste handling, is a state wide general survey of waste sites, quality, quantity and their systematic registration into a data bank. Protecting and improving the quality of our environment requires complex and immediate technical remedial action which could be quite expensive and might have little effect in eliminating the problems. Therefore, environmental protection should consist of hydrogeological, biochemical, engineering-planning and administrative-legal parts, to have an overview of the problems and their efficient handling. The basis for such an operation is a well organised information system.

In Hungary, many state agencies are collecting data about the environment. These data are gathered independently from each other and they serve only the purpose of the individual collecting agency. There is a lack of data for any state wide regulation, or direction, and no in the various regions, uniformity in size, accuracy, depth, quantity etc. Planned environmental protection must be based on systematic data gathering about natural resources and their pollution from the viewpoint of their utilisation. The state wide data bank should be organised in accordance with characteristic regions. The Hungarian Academy of Sciences – Geographic Research Institute prepared a cadaster of the sub regions of Hungary (*Pécsi et al.*, 1990) which is a state wide geographic environmental data bank. Based on this survey and in accordance with the political administrative units, together with the industrial and urbanised areas, it is essential that a uniform data bank for Hungary be organised.

The five regions of the data bank

Data gathering, in accordance with the characteristic regions and with the potential of the environmental groups of the universities, should be organised as follows:

1) University of Debrecen: *Great Plain*: Bács-Kiskun, Békés, Csongrád, Hajdú-Bihar, Szabolcs-Szatmár-Bereg and Jász-Nagykun-Szolnok counties together with Debrecen, Kecskemét, Nyíregyháza and Szeged cities.

2) University of Miskolc: *Northern Hungarian Mountain Region*: Borsod-Abaúj-Zemplén, Heves and Nógrád counties together with the City of Miskolc.

3) University of Veszprém: *Little Plain, Transdanubian Mountain Region and Western Hungarian Border Region*: Fejér, Győr-Moson-Sopron, Komárom-Esztergom, Vas and Veszprém counties including Lake Balaton and furthermore Győr and Székesfehérvár cities.

4) Janus Pannonius University: *Transdanubian Rolling Country and Hilly Region of Zala*; Baranya, Somogy, Tolna and Zala countries together with the City of Pécs.

5) Eötvös Loránd and Technical University of Budapest: *Budapest and Suburbania*: Pest County and the Capital City of Budapest.

The territory of the 3,160 communities of Hungary can be surveyed by using 1,066 1:25,000 maps or by about 4,000 1:10,000 maps to collect the necessary data.

The data units of the data bank

Parameters of the environmental protection data bank can be organised into the following units:

- 1) Aerial photography in 1:10,000 and urbanised or industrialised areas in 1:4,000 scale.
- 2) Basic maps 1:25,000 or for gathering data 1:10,000; in urbanised areas 1:4,000 in accordance with the needs.
- 3) Geodetic and other characteristic topographic points indicated on transparency sheets fitted to basic maps.
- 4) Demographic data: political boundaries of communities and county boundaries with regard to density of population, main transportation networks and area of communities in per cent on basic maps. Population density over 1,000 people/km² be indicated separately.
- 5) Utilisation of area: arable land, irrigated area, meadow, industrialised and urbanised areas, orchards, gardens, forest – deciduous and coniferous –, water surface, flood-prone areas, etc. using aerial photography.
- 6) Soil characteristics: alkaline soil, marshland, degraded soil, barren, rocky, etc.
- 7) Surface water, water shed characteristics: observation stations, flood-prone areas, areas endangered by inland water, lakes, marshlands, protection levees, pumping stations, etc.
- 8) Geology and ground water: characteristic hot springs, wells, network of drilled wells (owner, depth, elevation of ground-water, quantity and quality of water, geologic layers, year of drilling, etc.) with indication of geologic conditions.
- 9) Climatic and meteorological data: extreme temperatures, first and last frost, min. and max. rainfall, rainfall intensity, air quality, deflation, etc. Meteorological stations to be indicated.
- 10) Public utilities (water supply) with main objects: served area, water supply network, water catchment, name of water supply company, pumping stations, reservoirs, etc.
- 11) Public utilities (sewage) with main objects: area of sewage system, sewage treatment plants, name of sewage company, pumping stations, emissions, sewage network, etc. Sewage treatment plant capacity and degree of treatment.
- 12) Area and point pollution with indication of the sources: industrial plants, emission, degree of treatment, characteristics and quantity of emission, recipient, etc.
- 13) Mines: surface and subsurface mines, quarries, gravel pits, sand pits, etc.
- 14) Garbage dumps: name of the owner, area, material (solid, liquid or toxic), treatment.
- 15) Line type constructions (surface and subsurface): cables, telephone lines, oil and gas lines with their objects such as pump stations, tanks, plants, etc.
- 16) Protected natural resources: protected areas, parks, reservations, etc.

- 17) Control stations for measuring environmental parameters: air pollution, soil contamination, etc.

The listed data items would be registered on separate transparent sheets fitted to the basic maps so that the data location could be specified either based on mercator metric projection (latitude and longitude) or by digitisation with nine digit numbers which correspond to about 3 hectares.

This first registration on maps and by computerisation will give the basic historical data of 1993. Besides the above items, it is useful to attach pertaining list of available literature organised also into county units. Furthermore, characteristic items for each map should be noted and listed as a part of the map.

All of the above described items, including the maps, will be computerised, for easier handling and storage. The computerised data are constantly updated, and to 1–5 year intervals are frozen to create additional historical data. This set-up will enable the analytic computer technique to serve as a planning tool and help to evaluate future trends and effects by handling and “massaging” the data. Despite that the data before 1993 are not organised in the same way nor are they complete, they can still be used successfully at various investigations and according to the preserved information.

Technique of data collecting

Based on the previous, the registration of data is planned in 1:10,000 scale, respective in 1:4,000 for urbanised and industrialised areas. The data bank will be in accordance with the registration respective in scale of 1:25,000 for easier handling. State-wide, 4,000 maps are needed in scale of 1:10,000. On the other hand, 1,066 maps cover the whole state in scale of 1:25,000.

The parameter data be recorded by the previously described units separately on transparency, which means at 1:10,000 scale about 68,000; at 1:25,000 scale 18,122 maps for Hungary.

The graphic registration, using 9 digit codes gives 3 hectares information units at 1:10,000 scale.

To complete the survey, a half year is needed to start up the program consisting of organising the five working groups and securing the basic tools including material. The duration of the survey program is contemplated to be about two and half years.

Organisation of data gathering

The previously mentioned five working groups need the co-operation of the following agencies and organisation:

- 1) Survey of 3,264 communities' territory including co-operation of the representatives from counties, county cities and territorial “Offices of the Commissioner of the Republic”.
- 2) Programme of the Great Plains.
- 3) Programme of Lake Balaton.
- 4) Geological Services.
- 5) Directorates of Water Resources Management.
- 6) Environmental protection research institutes.
- 7) Soil research institutes.

- 8) County health officers and their district offices.
- 9) Industrial superintendencies.
- 10) VITUKI research institute.

Last but not least, the co-operation of environmental protection superintendencies is also essential. It should be pointed out that gathering data is partially free of cost because many of the state agencies already have some kind of data bank which, after a critical review and evaluation, can be integrated into the state wide data bank.

Brief analysis of the users

The request profiles of the users of the data bank are expected to come from user query categories as follows:

- 1) Point information: information sought by a citizen or corporation such as prospective owner or builder who is interested in a point or limited area, where he needs all information which can influence future construction or the planned use of his property.
- 2) Area information: information sought by a planner from the local, county or state level who needs all information that can affect planning decisions.
- 3) Vertical, group information: specified governmental or research agencies or corporations interested in special group information only, such as Bureau of Water Pollution Control.
- 4) Horizontal, point or areal information, prevent or avoid: looking for information concerning a point or an area, possibly only of a certain type, due to legal or financial problems.

General suggestions for landfill location

Finally as general rules for hazardous or solid waste landfill considerations, it should be mentioned the followings:

- 1) Locate landfills at elevations which are lower than nearby residential areas.
- 2) Insure that the area is clean prior to construction. If the site contains refuse from previous dumping or layers of organic material, mud, etc., it should be checked for safety and overload conditions.
- 3) Landfills should be placed in areas not likely to be used for any residential, commercial, or public building construction in the future.
- 4) Place landfills in areas with as many hydrologic barriers as possible surrounding the site. These would include a fault, groundwater divide, confining bed, discharge area, drainage divide, etc.
- 5) Landfills should be put in as remote an area as practicable with prevailing winds blowing away from settlements.
- 6) Landfills should not be located in a flood plain, wetlands, or near potable water supplies.
- 7) Landfills must not be situated over limestone, dolomite, or marble over past or present subsurface mining activities or in gravel pits.
- 8) Dumps should not be in areas where leachate could enter a free flowing body and then be carried toward settlements.

- 9) Landfills should be provided with an impermeable bed which is either natural or man-made.
- 10) Landfills should be easily accessible by trucks, and be secured by fencing.
- 11) Landfills should not be placed on a ridge because their leachate will pollute not only one, but several watersheds by their elevation and location.
- 12) Landfills should not be located in the upstream portion of a watershed draining to an on-stream reservoir, including areas that drain directly into offstream reservoirs.

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42 TECHNOLOGY STRATEGY AS AN INSTRUMENT OF REGIONAL DEVELOPMENT

JAIME DEL CASTILLO

The need for structurally-underdeveloped regions to have their own technology policy

Present-day economies are increasingly conditioned by the influence on economic growth of organisational and technological change brought about by scientific progress. They are also affected by the growing predominance of intangible over tangible factors with regard to the production of goods and services. So there is an important connection between the capacity to generate and assimilate technology and the potential for economic growth.

Structurally-underdeveloped regions are generally characterised by two features that may well help to explain their negative evolution:

1) In the first place, they usually have traditional social structures which are hostile to change and with low innovative capacity. If we bear in mind that the regional environment has a considerable influence on the capacity for technological change, the fundamental need for measures designed to transform that environment is easy to understand. New innovative companies can only appear (or older firms convert to the innovatory attitude) in a favourable environment that stimulates the entrepreneurial spirit and ensures that the resources needed to maintain competitiveness are available.

Where this environment is lacking, traditional companies will retreat into an increasingly outmoded specialisation bearing little relation to market developments. Firms with a degree of technological capability or capital intensity will not be able to acquire the software that would allow them to master the new procedures and will be condemned to experiencing changes in the world economy passively. Firms with leading-edge technology will neither be created nor locate in the region.

2) When there are large firms in these regions, they are usually undergoing restructuring and will have lost their capacity to pull local industry along with them. Most companies will be small, family affairs and will have survived until now as subcontractors for large firms, lacking autonomy and capacity for innovation, or by concentrating on the local market and resources (although there will be some isolated exceptions).

However, national aid measures designed to spur technological change are often structured in such a way as to be used only by firms of a certain size, while small companies tend not to make use of them (through lack of information, lack of encouragement, inability to meet specifications, etc.).

So the need becomes clear for specific measures to be created in response to the social, cultural and productive characteristics of each region. National policies are not sufficient to develop the resources of structurally-underdeveloped regions because they are not conceived as a means of achieving the impact required in depressed environments. Clearly differentiated measures have to be designed that take each region's specific characteristics and strengths into account.

Resources in such regions tend to be very precarious. So, to be effective, all action must be based on the systematic, updated understanding of the current state and situation of a specific region as a whole. This further implies the need for a programme of research into its social and economic structures.

The results of the research will be felt at two levels. First, in their effect on the formal decisions taken by the competent political bodies, particularly in the options open to them. Second, as the general public gradually becomes aware of them, the results will help to change collective attitudes and mindsets, thereby facilitating the mobilization of energy through a deeper understanding of the true state of things.

Basing regional policies squarely on rigorous knowledge of reality and on a professional analysis of the resources used has other advantages. For regional policy to be successful, particularly in structurally-underdeveloped regions, continuity of objectives and instruments in time is essential. The analysis itself could be used as the basis for a global political and social consensus that would give stability to the strategic alternatives.

If the research is carried out by an independent institution (e.g. a university research institute), it may be the only way for the interests and needs of the weaker, poorly-organised social groups to reach public opinion and politicians in power.

To underestimate the importance of this possibility is to forget that, for a long time, decentralising industry to rural zones received little or no support because economists, who saw the strategy as theoretically impossible or inefficient, were against it. When the consequences of the recession and the situation of some regions forced them to look seriously at this alternative, theoretical arguments were eventually found to justify it. The removal of the mental block suffered by many of those in charge has led to the possibility of beginning industrialisation in many regions.

Policy on qualified workforce and management team

Bearing in mind that innovation is a process of sequential, cumulative actions ranging from industry's adaptation of a new discovery to the industrial production and marketing of a product, it should be clear that an innovation policy must take into account the financial, economic, human and social features of all the stages of the process. For the same reason, innovation policies cannot be designed in isolation, as they only make sense in relation with other regional policy instruments.

For regional SMEs to take an actively positive view of technical change, support measures for management personnel are vital. Such measures should attempt to facilitate the adoption and assimilation of new developments while helping to spread the internal decision-making process more widely. They should also aim to open up firms to the external world. The type of workforce and the nature of their jobs are the factors that best explain a company's behaviour on innovation, much more than the size of the firm.

In the first place, measures must be taken to ensure that the decision-makers have the necessary information on external economic conditions referring both to the general situation and the firm's specific activity. Here, consultancy and advisory services, whether private or public, will play a decisive role.

Attempts should also be made to compensate the lack of technicians in companies. In the long term, this requires taking on properly qualified staff, and measures financing graduate stages or technicians "on loan" can prove helpful. But in the shorter term, using external services helps to gain time as well as reducing costs and effort.

Particular attention should be given to generating interfaces between companies and consultancy institutions; once they begin to function, such interfaces should be seen as a permanent acquisition for the region and one of its major assets for the future. Awareness of the need for this information interchange can be speeded up by encouraging the installation of new (usually electronic) equipment, which also means taking on new staff and recycling the existing workforce.

Nor should the effects of less spectacular measures be underestimated as a valid means of ending the isolation of SMEs: regular, systematised reports on information appearing in specialist supply and demand journals, participation in trade fairs and exhibitions, executive meetings and the creation of groups to discuss the prospects for the sector and/or the region are just some of the ways in which low-cost interface activities are generated.

Care must also be taken to ensure that any policy of this kind not only leads to real innovation, but that such innovation is profitable. Many small firms can introduce an innovation by looking closely at immediate costs, only to find themselves in a difficult situation, once marketing is under way, owing to anything from a lack of staff or working capital to slow market penetration or a final preparation period lasting longer than planned. Using specialised consultants to provide a preliminary cost study for innovation will encourage firms to innovate by reducing the failure rate.

It is essential to create a climate where innovations made in the world economy as a whole can be introduced and accepted generally. Specific seminars for technicians, researchers, teachers and students; technology feasibility studies, financing for prototypes and trial production runs; helping to introduce new auditing technologies in firms as a means of contributing to the preparation of new projects: R&D credits and subsidies; favouring the effects of synergies through regular work groups and industrial cooperation agreements; defining development strategies for specific sectors that then enable the collective to think about the endogenous development potential of traditional activities. These are just some of the measures that can help to create the right climate and to supply the means for spreading innovation processes.

Services in regional policy

During the recession, structurally underdeveloped regions failed to create many jobs in the production services sector, particularly where the most sophisticated services are concerned.

In the long-term, the most serious consequences are those affecting the global economy. At the present time, for a region to be dynamic and capable of adapting and innovating, a good working link between tertiary and industrial activities is absolutely vital. A "productive" tertiary sector is an essential element in the revitalisation of industry.

Even so, developing such a complex activity is not an easy task, and a number of factors should be taken into consideration. Apart from promoting the use of services to industry by firms that still do not make use of them and encouraging (or ensuring) the existence of such services at regional level requires an analysis of where existing demand is oriented.

We will often find that the present trend lies between establishments in these peripheral regions and the large national centres, thus "leap-frogging" the regional centres and impeding cumulative expansion processes of tertiary service companies in them. There is clearly little to be done about this when the company generating the demand is a subsidiary, as its suppliers are chosen by the parent company. Large companies with head offices in the region are also difficult, as they will have their own internal services. And the same thing occurs when the service that is required has to do with very high level problems, as then specialists of a type only to be found in the major cities are then called in.

But there is still the broad area of consultancy services for strategic decisions (innovation, marketing and so on) and day-to-day management. Experience shows us that within reasonable limits the likelihood of developing them at regional level has much more to do with the quality and efficiency of the services offered than with price, which adds strength to the argument that they have to adapt to regional characteristics. Against the capacity of the large urban centres to offer extremely valuable high quality – and highly specialised – services, the centres of peripheral regions will only be able to respond by offering services specifically designed to respond to local needs, needs which they are much better placed to understand.

Public authorities should contribute by creating offers where none exist, through the development of local technical assistance and management networks, by improving information on available public services, decentralising research, developing decentralised computer and telecommunications networks, improving the regional systems for training technicians and professionals, and so on.

Professional organisations, chambers of commerce, business organisations, trades unions, and similar institutions can all be involved in the process. Besides contributing to a further refinement of the information network, the understanding of regional reality that these institutions have can also help to ensure that the measures on offer are more efficiently adapted to the needs and mindsets of local businessmen.

Finally, in light of the required critical threshold, it should not be forgotten that internal decentralisation within a region also has its limits; the most qualified services ought to be reserved for centres that reach a certain demographic level. This is not to say, however, that in the smaller centres it is impossible to instal the minimum required to avoid obstructing the innovation processes in accordance with the specific needs of each local economic structure.

In the longer term, in an increasingly open economy, it should be remembered that companies facing an expanding market will only survive if they achieve a sufficiently broad penetration, which usually entails a national and even international presence. However, SMEs have serious difficulties with international market research, which means that the role of international trade's regional bodies must be strengthened (or the national ones used if they are flexible enough) for them to report on the evolution of world demand, of potential competitors and possible customers; they can also help to

lower marketing costs and penetration in foreign markets. One important factor for ensuring the future competitiveness of firms is the reinforcing of structured links between the region and international economy through a regionally conceived project.

Defining a technology policy in structurally-underdeveloped regions with limited technological resources

In many places over the last decade, there has been a substantial shift in the attitudes of local businessmen which has given rise to an increase in research into areas of endogenous development. This can be explained by the need to satisfy the technological requirements of local innovative firms and contradicts the idea that research is something that can only be done at a few large companies.

At the present time, research centres have begun to play an important role in the distribution of technology at a local level; not only do they adapt it to industrial requirements, they also inform entrepreneurs of the existence of new processes and products and train workers to adopt the technique in question in the most suitable way.

Adapting technology to a particular local environment is a vital issue, since economic development depends to a large extent on such adaptation and on the continuous improvement of processes and products.

Usually one has to choose between three different paths: to import technology from other economies (technology transfer), generate it locally, or adapt it to individual requirements. The transfer of technology is the most frequently used mechanism in structurally-underdeveloped economies. But there is an increasing trend towards policies designed simultaneously to promote the process of adapting generic technologies available on the national or international to local potential.

The major problem suffered by structurally-underdeveloped regions trying to attract external investments with a high technology content is precisely the lack of incentives for such activities. The paucity of research and economic structures usually combines with unattractive living conditions to put off workers and company alike. This highlights the need to concentrate efforts on creating an attractive environment in a specific area and on the type of activities and companies that may have, in principle, greater awareness of the specific comparative advantages of each region.

At the same time, if this policy is to galvanise the regional economy as a whole, it must be accompanied by measures suited to creating a varied set of relations between the new activities and the region's economic, business, social and cultural environment. The difficulty of achieving this merely reinforces the need to concentrate efforts on an objective defined with realistic criteria.

Despite the fact that information technologies have made companies less dependent on specific locations, some minimum requirements must be fulfilled by the zone the region chooses as the site for new activities: good conventional communications (land and air), quality industrial land, available housing, cultural activities and, most importantly, proximity to the major markets and metropolitan agglomerations offering reduced transport time and access to contacts with high level scientific and professional media (including specialist services). Another important feature to be taken into account, despite its apparent subjectivity, is the need for the city chosen to have the best possible image for external decision-takers.

This approach must also be accompanied by a vigorous policy promoting endogenous potential for generating technology, stimulating innovation and generally using advanced services (quality, training and so on). Creating promotion programmes, generating training activities, assessment programmes, subsidies and the creation of specialist laboratories are just some of the multiple ways this can be achieved. One particularly efficient instrument – efficient because of the immediate offer it generates and, in the long term, because it makes a major contribution to changing the collective mindset – is to boost the industrial use of the results of regional university research.

Reasons for creating a regional techno-network

In addition to attracting external investment, structurally-underdeveloped regions must provide the means to help local companies steadily increase their high technology output – or commitment.

This will require a great deal of coordination to maximize the effectiveness of different policies, given the current technology lag and lack of resources (both human and financial) prevalent in such regions.

Another factor to bear in mind, especially in regions of a certain geographical size, is that technology policies designed to achieve balanced development within the territory must necessarily be decentralised and suited to the specific industrial requirements of each zone.

These two criteria lead naturally to the Regional Techno-Network concept, under which the full set of technology policies, instruments and resources would be coordinated to serve a set of objectives defined for the entire region (i. e. the overall technology policy) but applied individually according to the needs of each territory. This means integrating university capability, instruments at the service of technological development (centres of applied research), other instruments likely to evolve towards more complex technological content (laboratories, homologation centres and quality control services), company R&D activities, instruments set up to promote innovation (aid programmes for innovation in the widest sense, Business and Innovation Centres, incubators), as well as specific instruments (Technology Parks, Science Parks, etc.) and management- or technology-related qualifications improvement programmes (e.g. microelectronics training centres).

The Techno-Network should also be designed to help create the right conditions so that any external investments made in local leading-edge sectors will generate inter-relations with other local companies. The idea is to keep such new activities from becoming “high-tech islands” cut off from the rest of the regional economy, ensuring instead that they have a locomotive effect on local business.

A Techno-Network designed along these lines should not entail the creation of a burdensome operational structure. Set up as a task force, the Network’s added value would come not from its direct capacity to manage resources, but from its ability to marshal public and private resources in existence elsewhere and brought into the region thanks to its overall project and ability to stimulate and mobilise the right agents.

In a project of this type, the institutional side must of course be properly organised, but the Network must also have a long-term technology development plan that will give meaning and direction to each individual initiative undertaken in this field of action.

The project should be led by the public sector, for several reasons:

- a) It is a horizontal policy that is nondiscriminatory as far as the rules of fair competition are concerned. In fact, in all technologically advanced countries, the public sector is very active in R&D-related matters.
- b) In regions lagging behind in development, the prevailing business culture attaches little importance to R&D activities. Consequently, overt efforts are required to heighten awareness and stimulate action in this regard.
- c) Since in the current situation a good part of the small amount spent on regional R&D will come from the public sector anyway, the coordination of its activities and their inclusion in an overall strategic plan is an essential prerequisite for coordinating the entire set of R&D activities.
- d) Intervention in the form of a Techno-Network is in consonance with modern forms of public intervention carried out at levels defined strategically and viewed more as incentives than as intervention programmes.

All this would be in vain, however, if the actions of the Techno-Network failed to spill over into the private sector, making it the one to reap the benefits of the Network's efforts. So, in setting up the Techno-Network, this requirement must be taken into account. The Network must be designed so that at the proper moment, representatives of the private sector can become actively involved in its management.

Techno-Networks should set the following objectives for themselves:

- To create a framework encompassing the entire set of EU, national, regional and local projects affecting technological development and innovation;
- To define a long-term, strategic technology policy;
- To define specific actions for each of the region's zones according to their production characteristics, resources and culture;
- To improve the set of existing instruments and programmes;
- To set up a body to coordinate all actions and be in charge of stimulating the Network.

The need for a regional technology strategy

In designing its future policy, the Techno-Network must remember that technological change and R&D policies cannot by themselves achieve the structural transformations required by industry or the level of competitiveness required at international level. It is also necessary to include specific policies designed to bridge the gap between technological development and the commercial exploitation of products, while at the same time planning action designed to alter public thinking concerning this type of activity. In other words, technological development is only effective in terms of economic development if it can be applied commercially within a social context that will allow innovation to progress steadily.

This means that the regional policy of the 1990s must finally abandon formulas based exclusively on the awarding of subsidies and financial aid. Action must be conceived within the framework of an all-encompassing project led by the public sector and offering private agents the infrastructures required for maintaining competitiveness, while at the same time generating a new culture that is more conducive to innovation.

In this approach, intangible resources are as important as material means. Specifically, the key is to draw up a long-term strategy to improve the region's technological capacity, which is so crucial to the competitiveness of local firms.

A regional government wishing to define and develop a technology strategy designed to strengthen the regional technology infrastructure and improve the competitiveness of local companies must address certain important issues surrounding the process of defining and implementing the strategy. These issues concern the strategy's objectives and different constituent elements, and the process by which it is developed. A policy defined in this way would require the following:

- A long-term horizon with clear objectives, ensuring that long- and short-term actions are complementary;
- The generation both of consensus and partnership between all public and private agents. Those involved in implementing the strategy should also participate in its design to make sure that the resources of the agents operating on the territory are well coordinated;
- The marshalling of endogenous resources, helping to improve the available technology infrastructure and recognizing the key role played by technology and innovation;
- Making use of technology potential available in external markets but not feasibly generated at the regional level. This would require close monitoring of international technological and economic trends, and contacts with international sources of technology;
- Achieving a level of competitiveness within an international context, particularly in those activities that will raise the region's appeal;
- Public sector willingness to lead and promote the policy without falling into interventionism;
- Market orientation of all actions, so that technological development is clearly related to commercial potential.

In this context, the regional public sector must:

- Champion the elaboration of an explicit technology strategy drawn up with the participation of both public and private agents, so that the process serves to generate consensus and enthusiasm;
- Create the basic and generic technology infrastructures that cannot be supplied by the private sector but which are necessary to ensure the incorporation of applied research into regional companies.

The public sector must also promote the creation of a small management body to oversee the development and implementation of the strategy, ensuring its continuity.

The first step in the process is to make an assessment of the regional economy. This will serve as the starting point for defining the strategy. Such an assessment involves identifying all industrial sectors and classifying them according to activity, size, markets and weight within the regional economy.

The second step in the process is to evaluate the global trends affecting the region.

Next, the technologies required for seizing existing economic opportunities must be identified, evaluating whether their incorporation can be best facilitated by resorting to

regional infrastructures or by negotiating technology transfer agreements with international centres.

Once these analyses have been made, they will form the basis of the strategy, which must spell out the final objectives being sought, the direction to be taken, the intermediate objectives and the main implementation phases of the strategy. In addition, elaboration of the strategy should be conducted in such a way as to generate consensus in the region and determine the best way to manage the implementation of the strategy.

Crucial to the success of the strategy will be the ability to maintain a specific orientation with tightly drawn objectives. In all regions, strategies are defined and implemented within contexts in which new opportunities (and new risks) are constantly arising. To adhere strictly to a strategy in the face of radical changes in the environment would of course be a serious error, since strategic processes should never be thought of as the rigid application of a finished, unalterable document.

However, under normal conditions, the effective implementation of a strategy requires that efforts not be dispersed by attempts to seize every available opportunity regardless of its relation to the basic objectives of the region. It is essential to bear in mind that, on paper at least, opportunities are infinite whereas economic and human resources are limited. So the very essence of any strategy resides in its ability to select and discriminate on the basis of its stated objectives.

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43 MARKET ORIENTED REAL ESTATE POLICY AS A CHALLENGE TO SUSTAINABLE DEVELOPMENT

MARIJA BOGATAJ-SAMO DROBNE-LUDVIK BOGATAJ

Introduction

When we talk about “sustainable development” of Central European Regions, we mean such development which ensures a certain quality of life for present and future generations. This quality of life is described by the utility function with the following components of the utility vector: location, lot size, environmental conditions, goods produced, and availability of natural resources. It is typical of most of these regions and of the Transdanubian Region too, that state ownership and planning, which were able to provide such mechanisms of regulation that favoured sustainable development, lost their power. However, such state regulations or even regional and local authority regulations are available which can make private goals compatible with the rules of sustainable development. If such principles are applied, then fiscal policy and investment policy play an important role in spatial growth.

Changes in the socio-economic system ask for market oriented regulations. Privatisation, which is of paramount importance in these socio-economic changes, will see to it that the majority of land will be transferred to private owners. Consequently, the formulation of a proper land policy, which will support sustainable development, is necessary. Land is a burning question: how to get land which is necessary for further development of communal activities, roads, public utilities, parks and other facilities, which will accompany the growth of urban areas and will ensure a better social standard in towns and, therefore, a higher quality of life. Another burning question is: who is going to benefit from the urban rent, which is the result of past investments in municipal services. How to get some of the return back and use it for further investments in anti-pollution activities and other communal services in towns and their surroundings? Are direct prices (tariffs) of public goods the only source of further investments? Isn't the price of water in Hungary too high today simply because the government cannot find other justifiable sources of finance? Isn't such a way of financing communal activities a kind of externalisation of costs, which is caused by new land users on the outskirts of towns and by urban growth.

Under the conditions of a market-oriented economy, the problem of the land use and the related problem of urban infrastructure financing – especially that of the public supply system – have to be tackled with simultaneously. This is specially important when the use of land is changed from agricultural to urban purposes, when urban

infrastructure has to be expanded and improved, and when investment thresholds have to be taken into consideration if a higher quality of life and a better environment are to be ensured. How can a local government solve these problems? How can money to build communal supply systems be obtained and which are the most important elements of the so-called "anti-pollution industry"?

In Hungary, between 1975 and 1980, arable land shrank by 41,000 hectares per year. The regulations which allowed the use of agricultural land for industrial or dwelling purposes got stricter again in 1981. In addition to the price the buyer had to pay a substantial fee to the county council (*Eryedi-Zentai*, 1986). The fee was collected to protect the arable land of better quality. Nevertheless, the law failed to provide a uniform frame for environmental protection of all land-uses nor did it provide sufficient financial sources to cover the cost of antipollution activities in settlements (*Fodor*, 1993).

According to the Report on the Hungarian Economy Fall - 1991 (MF, 1991a) a surprisingly serious environmental damage is discovered in the process of privatisation. Declining incomes have an adverse affect even on environmentally protected areas, because they dictate more frequent and less careful use of land. Zoning laws and regulations are often broken. Therefore, the Central Government has delegated some of its zoning powers to the newly formed municipalities hoping that municipalities will be in a position to enforce law more strictly than the central authorities. Can such a policy be successful if there is no market oriented mechanism to support sustainable development? To better understand the reasons behind these processes it is advisable to follow Alonso's theory of bid prices of land.

We believe that the policy could succeed if it were supported by a market mechanism. A solution to this problem will be presented. An information support system has to be built to facilitate the implementation of the policy at the local and higher levels, and some suggestions about the setting up of the system will be provided.

Location of the activities in the settlements

The value of urban land in towns as well in the outskirts, which are nowadays frequently transacted and subject to reprivatisation, can be successfully studied on the basis of Alonso's theory of land rent: Location and Land Use (1964). We believe that this approach can also answer such questions as: the impact of environmental conditions on urban value, the influence of municipal services on the utility and price of land; it can also help us make further decisions about sustainable development, about the percentage of this extra utility, which can be collected as a financial resource for further development under the conditions of long-term sustainability.

Alonso describes the following pattern of location: every land user has three factors to consider when choosing a location:

- the amount of space that is required;
- transport costs, therefore the distance from other locations (namely, the distance from the city centre), which are direct transportation costs and opportunity cost of the time spent travelling; along with the distance from other locations the distance from the origin of pollution is measured. Both utility of site and intensity of the origin appear as functions of the distance;
- other produced goods.

If the user has some sort of limited income or a limited amount of capital, the money can be allocated among the three components of utility. We can extend Alonso's utility vector by:

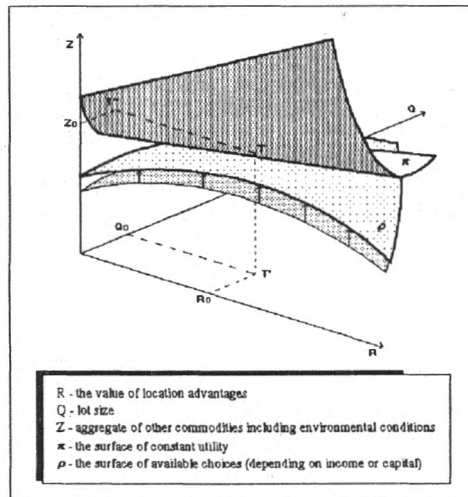
- environmental conditions, and
- available natural resources.

Since only a three dimensional picture can be drawn, the following reasoning can be applied:

Environmental conditions are the distance function from the polluter and can be added to the aggregate location component. If the two latter components are free, the surface of admissible choices and the utility surface are lifted and have the same shape. If the user has to pay for better environmental conditions and natural resources on this very location, his residual income becomes smaller, the surface of admissible choices falls and the surface of his utility also falls to reach a joined point. However, he can move to a better location and pay more for the location. But this move makes his residual for other goods smaller and his optimal point drops. This extension of Alonso's description of how to choose an optimal location (Alonso, 1964) is described by Figure 43.1. Therefore, sustainable development can be defined in the following way: *Sustainable development is such development which provides an optimal (at least not falling) point (by this extended approach) for today and also for further users.*

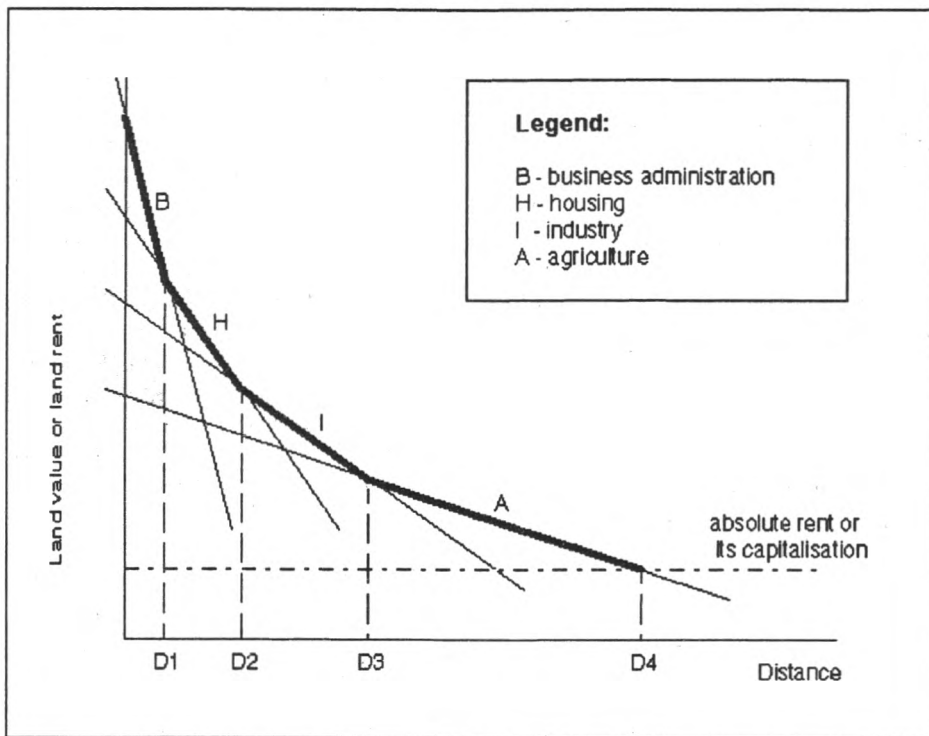
Figure 43.1

Optimal choice of land use



Different activities enjoy different utility at the same location, simply because they have different intensity of contacts with other locations (for the sake of simplicity – with the city centre) and, because they are not equally sensitive to pollutants coming from a certain distance. These are the factors which influence the bid prices of land as the utility curve changes to the optimal user, unless there are administrative effects (Figure 43.2a; Alonso, 1964).

Figure 43.2a

Equilibrium price of land

As it is made clear by *Figure 43.2b*, administrative restrictions (zoning) can change the land price and so an owner who sells land loses his money or in another situation gets more by doing nothing. If fines for not observing zoning regulations are low, lower than the utility difference between the not-allowed and allowed location of a certain activity, then zoning is neglected. Such effects of spatial allocation control are to be found in many countries, Hungary is not the only one.

To improve environmental conditions in a certain town, planners suggest green belts. The questions which often appear in relation to these are the following:

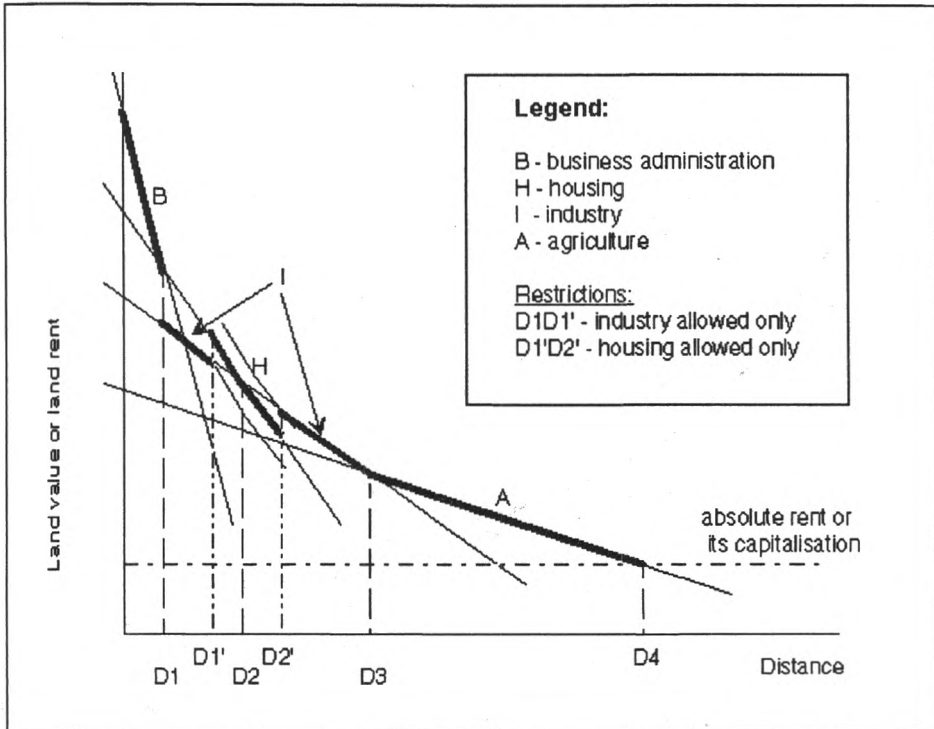
- What is the impact of a green belt on urban growth?
- Will the green belt surrounding a town remain untouched? How high should be the fines for those breaking into the green belt zone if planners are to succeed?

There are two things which exercise pressure on green belts:

- 1) The number of land users remains the same, but due to lower transportation costs (lower car prices reduce transportation costs and Hungary is a typical example of this) or more polluted city centres, the utility curve is less inclined.
- 2) Population and activity growth.

Figure 43.3a shows pressure on the green belt and changes in land prices or land rents, case (1). *Figure 43.3b* shows pressure on the green belt and changes, case (2).

Figure 43.2b

Influence of urban planning decisions (zoning) on the land value

From *Figures 43.3a* and *43.3b* it is clear that fines which are lower than the difference in land values between C and E (CE) will not prevent users from building in the green belt areas.

Figures 43.1 to *43.3b* show gross utility. If we want to introduce a market mechanism to support the efforts of planners to reach sustainable development of towns and other settlements, proper investment and fiscal policies have to be introduced into this study. The influence of a certain tax policy on utility of land use and reallocation of activities (if there are no reallocation costs) is shown in *Figures 43.4a-c*. Reallocation costs can be very easily demonstrated by the difference in slopes.

The slope of utility curves determines the location of activities if equilibrium exists. Activity 1 with the utility curve $U_1(D)$ is located on the distance $(0, D_1)$, using the land area: pD_1^2 . Activity 2 with the utility curve $U_2(D)$ is located on the ring (D_1, D_2) because the derivatives satisfy inequality

If after tax which is equal to $p U_1(D)$, where p is the tax rate, the net utility curve $U_4(D)$ of activity 1 is less inclined than the net utility curve of activity 2 (in our example we assume that there is no taxation of activity 2) the allocation of activities is not optimal any more

Figure 43.3a

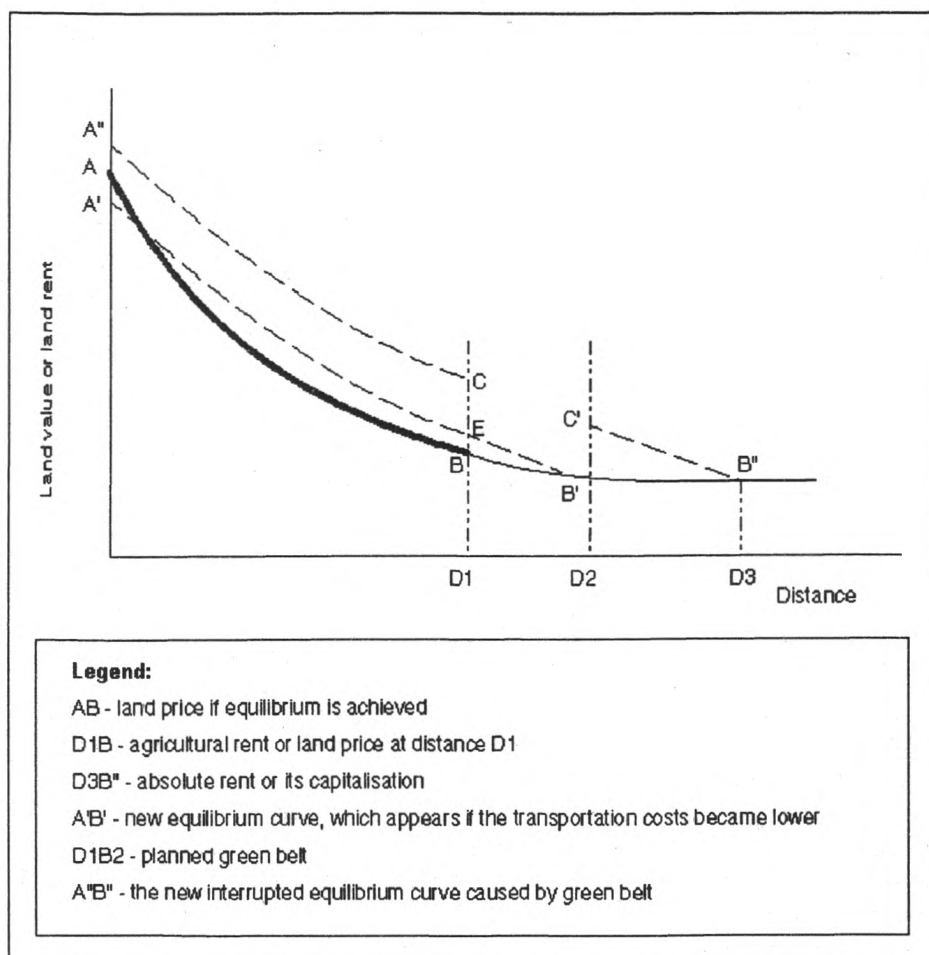
Influence of urban planning on land prices

Figure 43.3b

Influence of urban planning on land prices

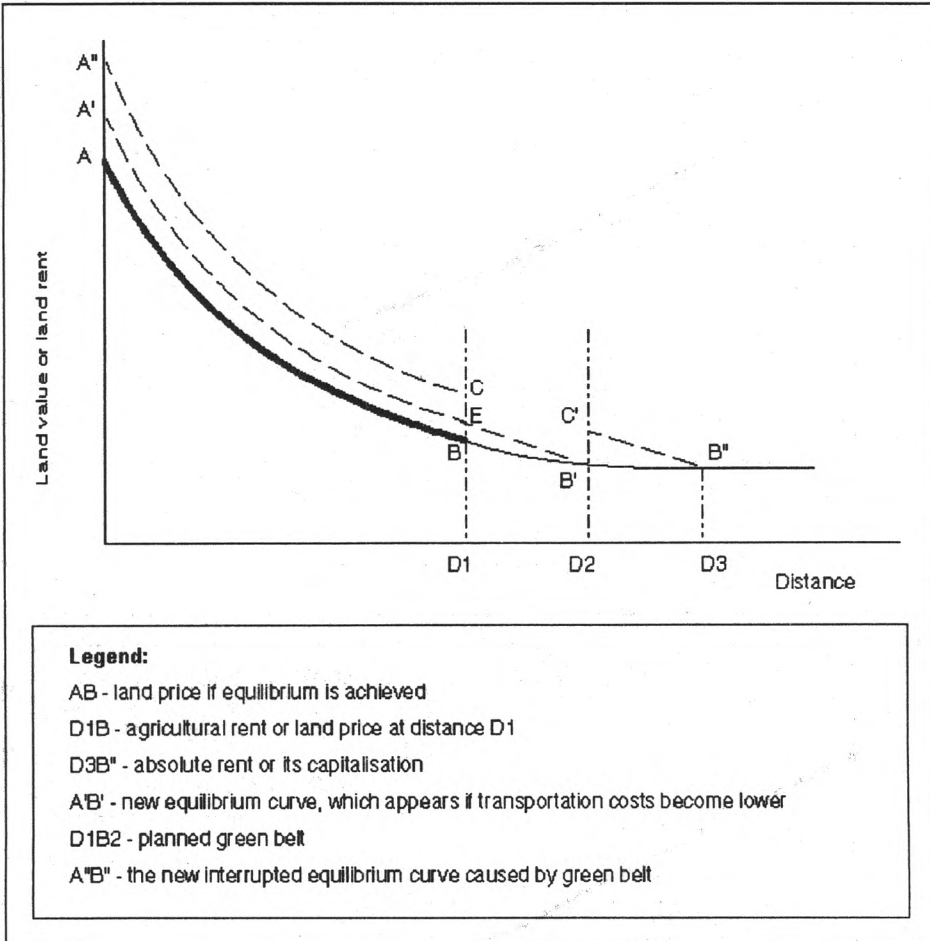
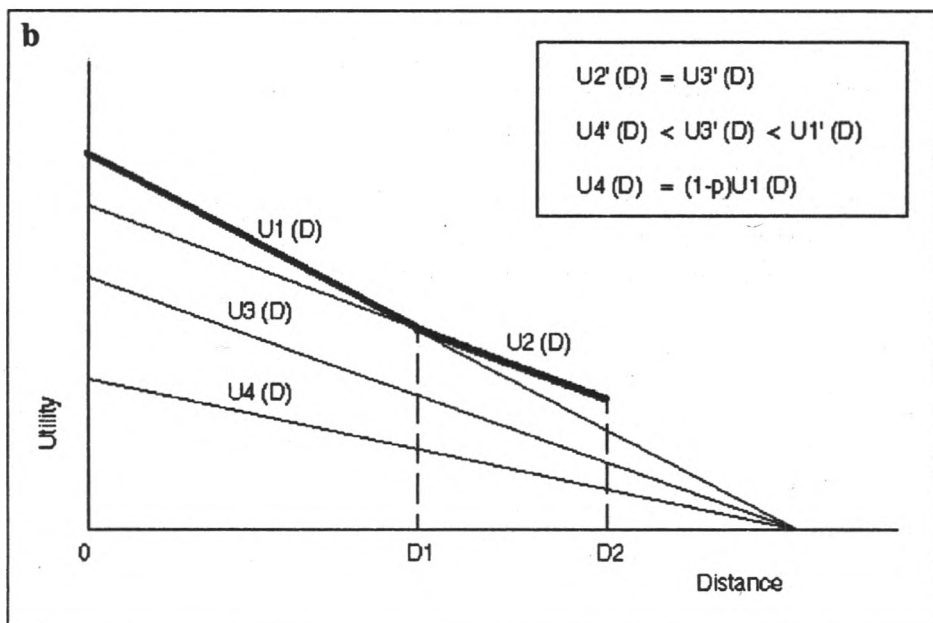
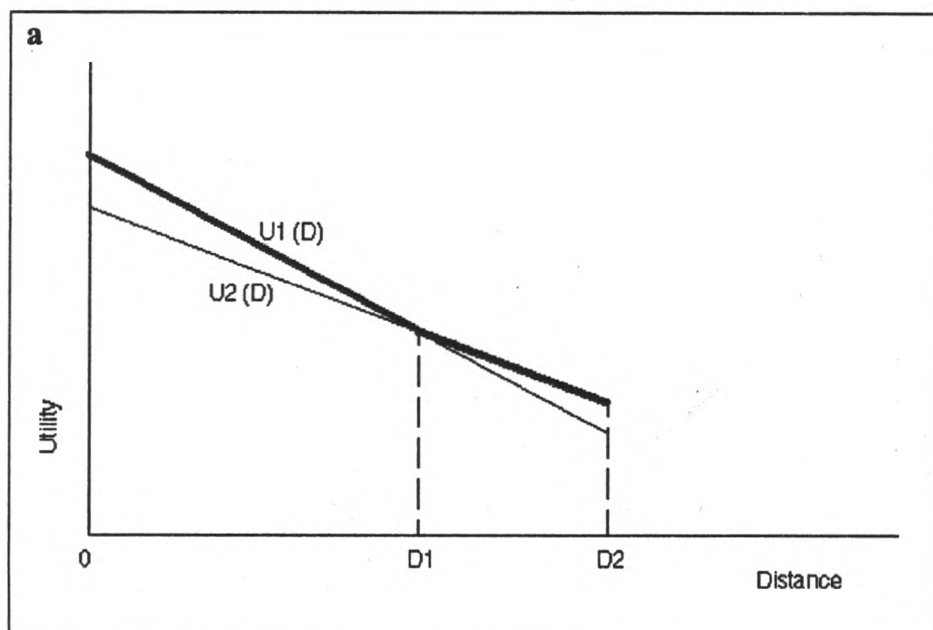


Figure 43.4

The influence of tax policy on utility of land use



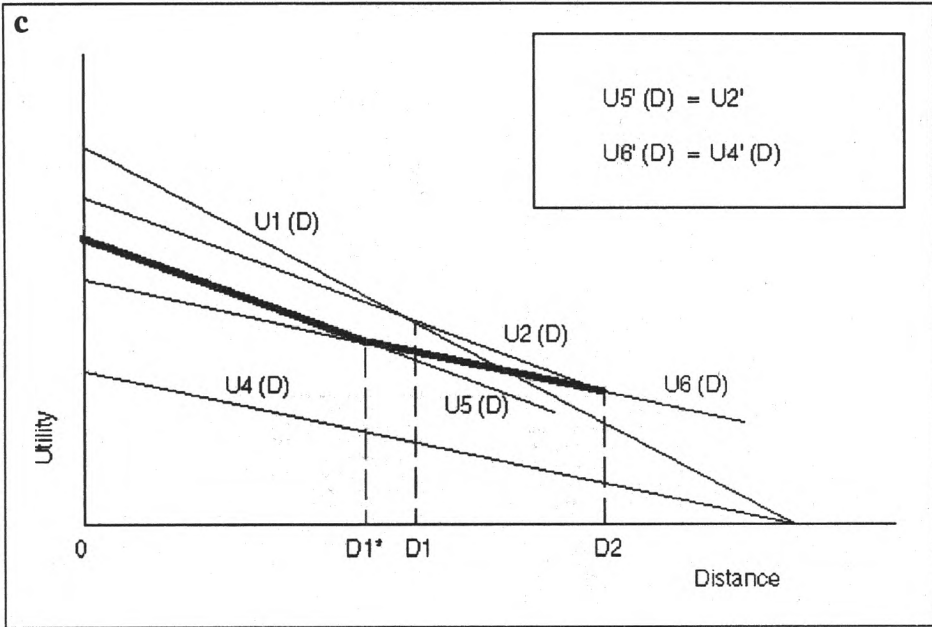


Figure 43.5a

Urban cost and benefit curves as functions of city size

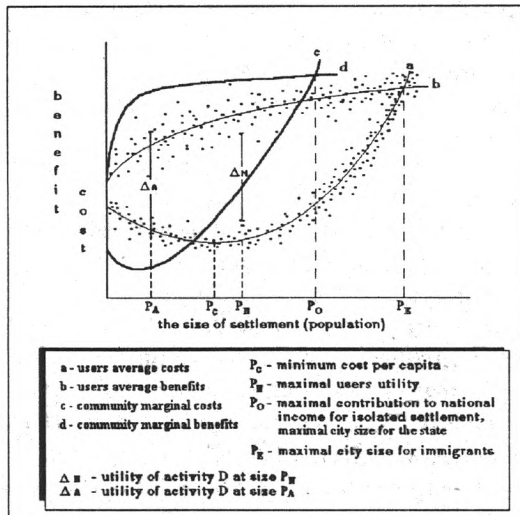
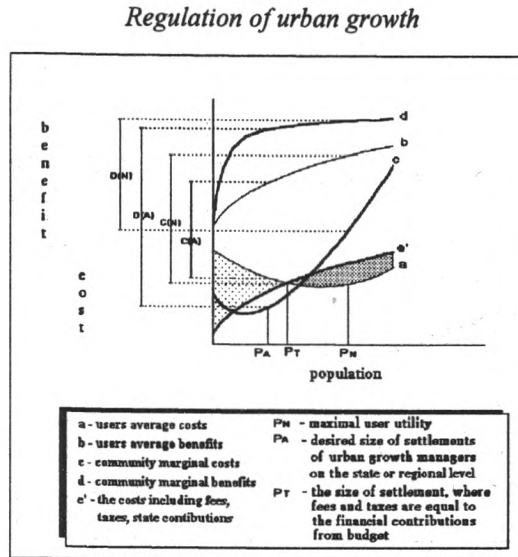


Figure 43.5b



If the reallocation costs are not high enough for reallocation from site on (D_1, D_2) to site on $(0, D_1^*)$ activity 2 will change location with activity 1. If density requirements remain the same, then: $pD_1^2 = p(D_2^2 - D_1^2)$

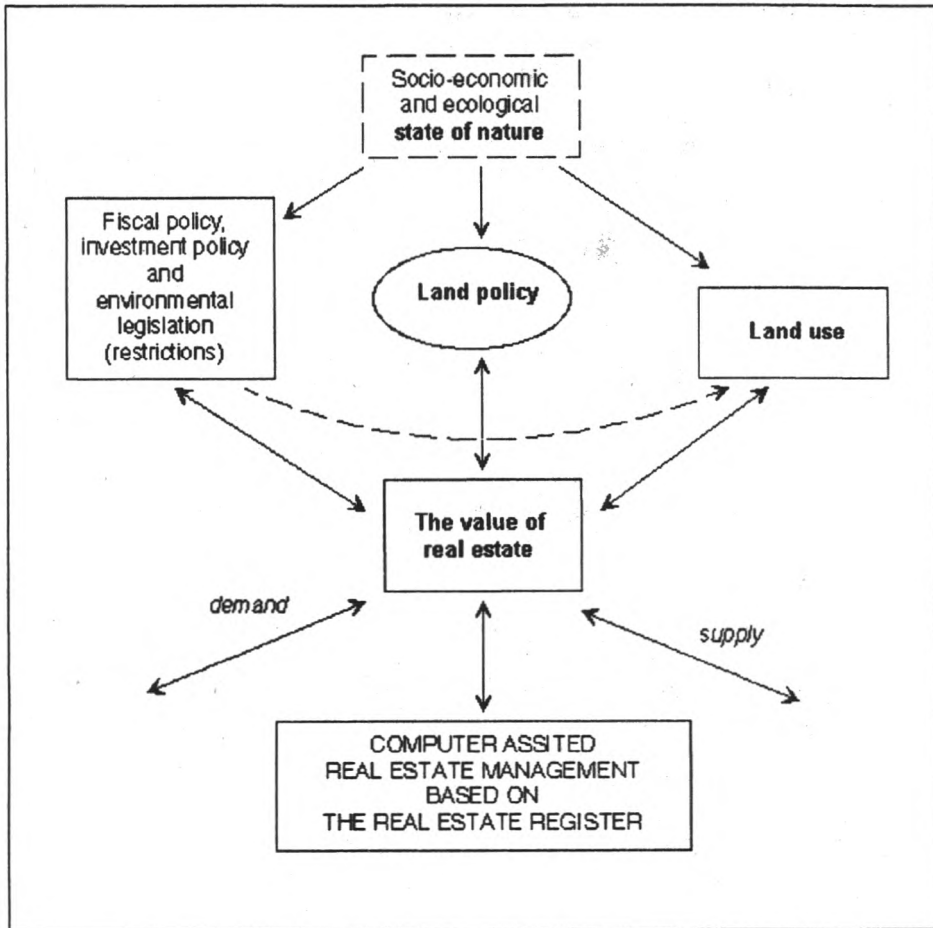
To build up a new model for management and control of urban and regional development in East and Central Europe, the sharing of power among the central government, regional authorities and local self-government is necessary. For better decision making this power sharing has to be applied to modelling. Those kind of problems in Hungary are well described by *Enyedi* (1990).

The local self-government can explore and support the real needs of local population and private entrepreneurs. They can introduce a proper investment policy and a fiscal policy to invest in public goods and to reallocate the activities inside its territory to achieve higher performance of sustainable development. Land and other real estate taxes and fees become part of a local budget and assume the role of a growth regulator. But local self-government can contribute to the development at the regional level by allocating a proper share of its income, corporate and other taxes, or other budget resources. In order to achieve sustainable development it is sometimes necessary to reallocate activities among towns. To improve urban growth, some towns (also entrepreneurs in towns) need additional financial support, which could come from higher differentiated taxes, dependent on the self cleaning abilities and the current population size of an individual town. It is expected, according to Tiebout's hypothesis, that fiscal and investment policies will influence differentiated growth of urban agglomerations.

To achieve the expected results, the following introduction of computer assisted land policy in *Figure 43.6* is needed.

Figure 43.6

Computer assisted real estate management: appraisal, investment policy, fiscal policy and legislation



The theoretical results, which originate from the theory of urban economics and from other theories of spatial economics, can be successfully applied to the urban growth control in sustainable development even in Hungary, if enough information is available. We believe that GIS with the Building and Dwelling Register (BDR), which is embedded in it, is necessary. BDR will enable us to upgrade the relevant mass appraisal, which will include results for environmental protection. BDR makes the implementation of certain mathematically formalised methods for multi-criterion and multi-level decision making possible. In this paper some results of simple spatial decisions (originating from some basic Alonso's considerations) are discussed. They have to be studied simultaneously in the models of spatial interactions and supported by GIS with the Building and Dwelling Register playing its role. Some suggestions on how to construct the register, which will support the decision making models, are given in short below.

Building and dwelling register, real estate cadastre and database for urban management

In most European countries the old versions of the land register (cadastre) contained a few inexact building registrations. Information on building structures, constructions, etc., was naturally used by various sectors of civil service. However, no systematic or detailed registration of buildings or dwellings took place in a uniform way. But there were some exceptions, for example Germany and Denmark, which created a land information sub-system of their own covering primarily buildings, dwellings and trade units (business premises). In the late 1960s and early 1970s this system was used specially for planning purposes. The virtue of the land information sub-system is that it can be used to facilitate the valuation process of real property and that it enables fully computerised population and housing censuses.

Nowadays the Building and Dwelling Register (BDR) is a central element of the integrated space information systems. It is a multi-purpose register, which connects land information sub-systems (cadastre, land register, property register, sales register of property, etc.) to other official multi-purpose registers (Central Population Register, Register of Enterprises: firms and trade units, etc.) and all other systems using the person-, firm- or trade-code and address-code as identification (MHB, 1985, 1989). It connects LIS sub-systems to other socio-economic systems, therefore, according to the definitions of geographical information systems (GIS) and land information systems (LIS; *De Mann et al.*, 1984), it upgrades LIS to GIS.

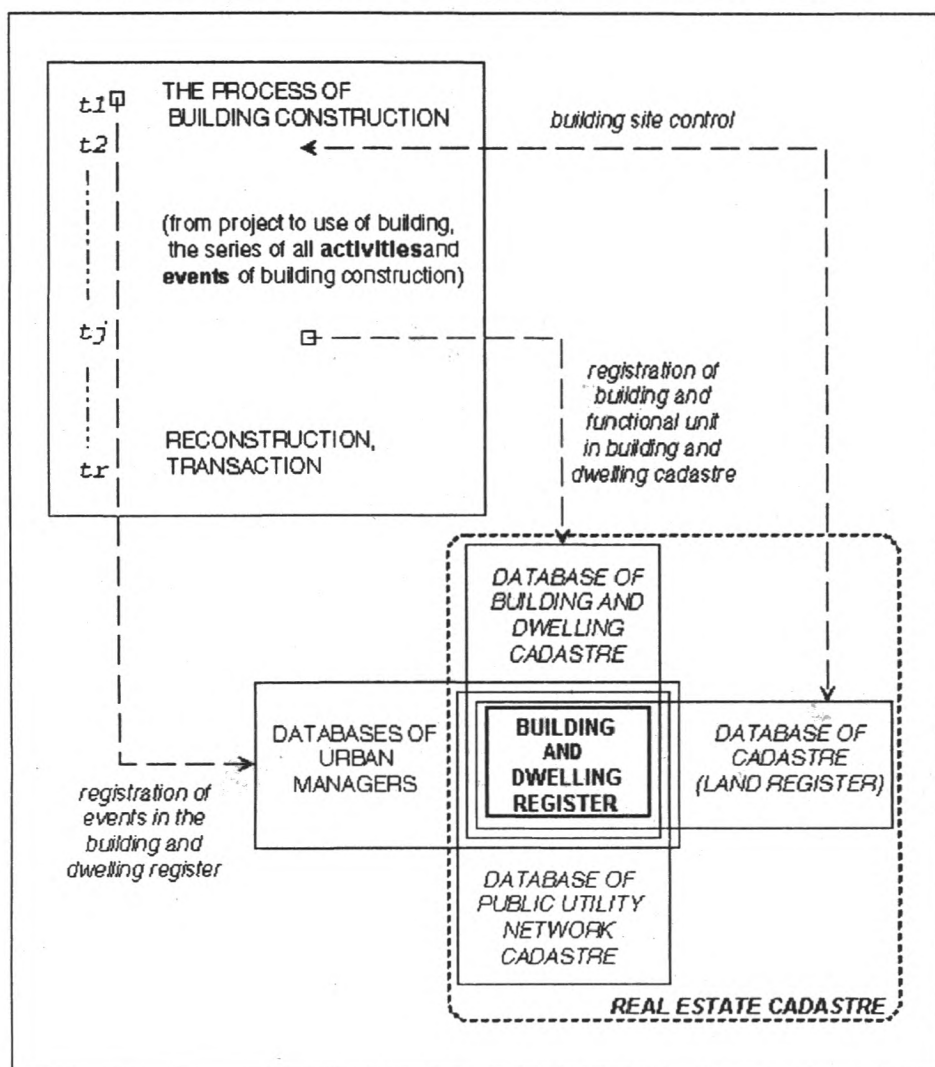
BDR is a database primarily used in urban and space management to enable registration of all events related to the building space: a) different events during the process of construction building (from the project to the use permit for the building); b) events related to the reconstruction of the building or reconstruction of its functional units; and c) different transactions (*Bogataj-Drobne-Ferlan*, 1991; *Bogataj-Drobne*, 1992, 1993). *Figure 43.7* shows BDR as a central element of real estate databases.

In Hungary the Real Estate Cadastre consists of: a) basic real estate data (location, value, property, rights and facts); b) data about buildings (residential buildings, industrial buildings, dwellings and other units, which are not used for residential purposes); c) data about land parcels (agricultural surfaces, green surfaces, traffic surfaces, waters, water surfaces and cemeteries); d) data about public utility networks (waterworks and sewage, district heating, built river banks and lake strands including bathing establishments, open-air pools and other buildings used in public utility networks). *Fig. 43.8* shows the structure of real estate cadastre at the local level in Hungary.

Because the proposed BDR in Slovenia is designed by the relational technique of modelling databases, it consists of three tables: a) table of buildings; b) table of functional units (dwellings, business units); and c) table of addresses, and coordinates of building centroid (*Drobne*, 1993).

The table of buildings (ZG) consists of identification, type and status of a building. The status shows the phase in which the construction, reconstruction or transaction of a building is. The parcel number, which defines the parcel under the building, could serve as an additional attribute in the same or in a separate table. The table of functional units (EN) consists of identification, type, status and entrance of a functional unit. There could be some other data, i. e. the floor, etc. In the table of addresses and coordinates (EHIS), there is data giving the address of a building or a

Figure 43.7

Compatibility of Building and Dwelling Register and Real Estate Cadastre

functional unit, identification of the building with the entrance, and code of the smallest, basic nested unit (census unit). In different countries, the data and relations can be organised in different ways, depending on the already existing land or other information sub-systems. The data on hierarchically nested spatial units in the ROTE table with links to the data in the EHIS table is needed for data aggregation based on BDR at higher levels: at the level of towns, counties, regions or the state. In the Hungarian Real Estate Cadastre (in the "I" (map of real estate), "E" (residential buildings) and "L" (dwellings) insets) all data needed for basic tables of the Building and Dwelling Register appears (In Slovenia: ZG, EN and EHIS), except for the status

of a building and its functional units. Anyway, these can be automatically obtained from the registration procedures of a building or a functional unit.

For the registration of different data needed in urban space management – and land policy too – the database model of proposed BDR was extended by some additional tables.

Figure 43.8

The structure of real estate cadastre at local level in Hungary

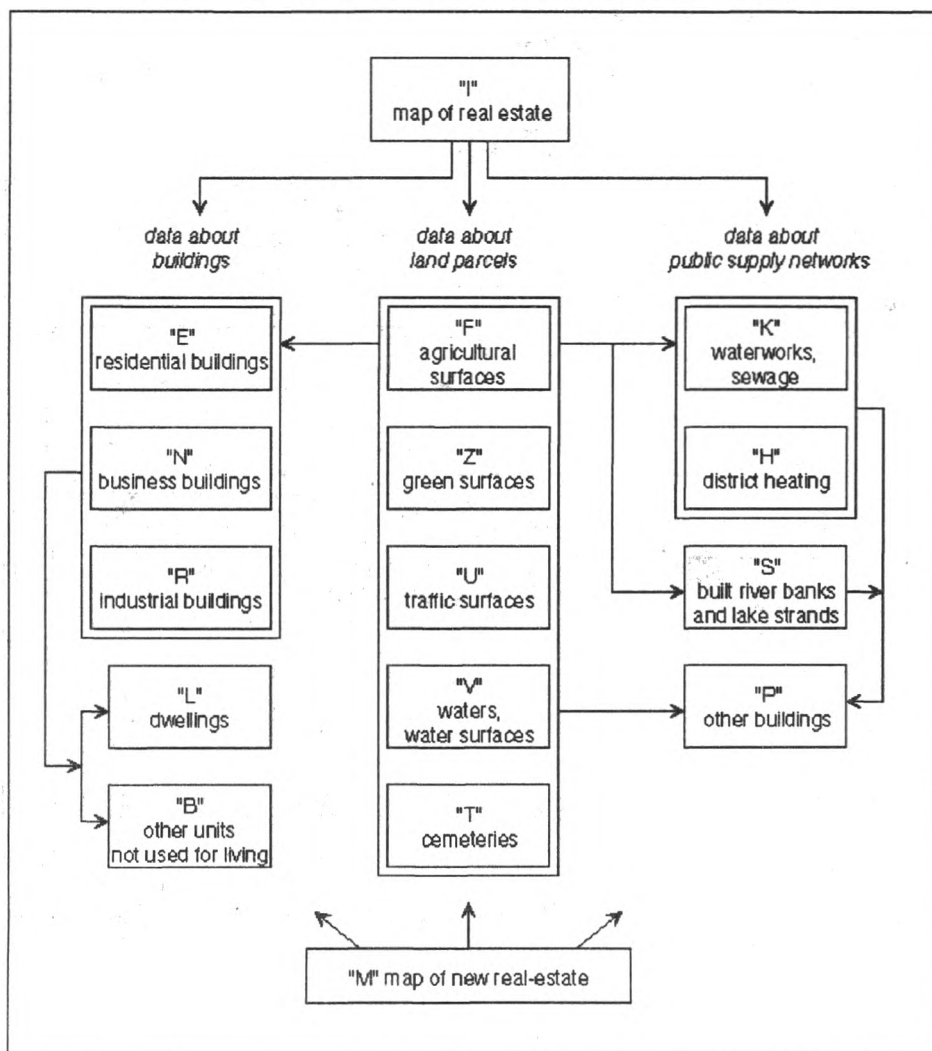
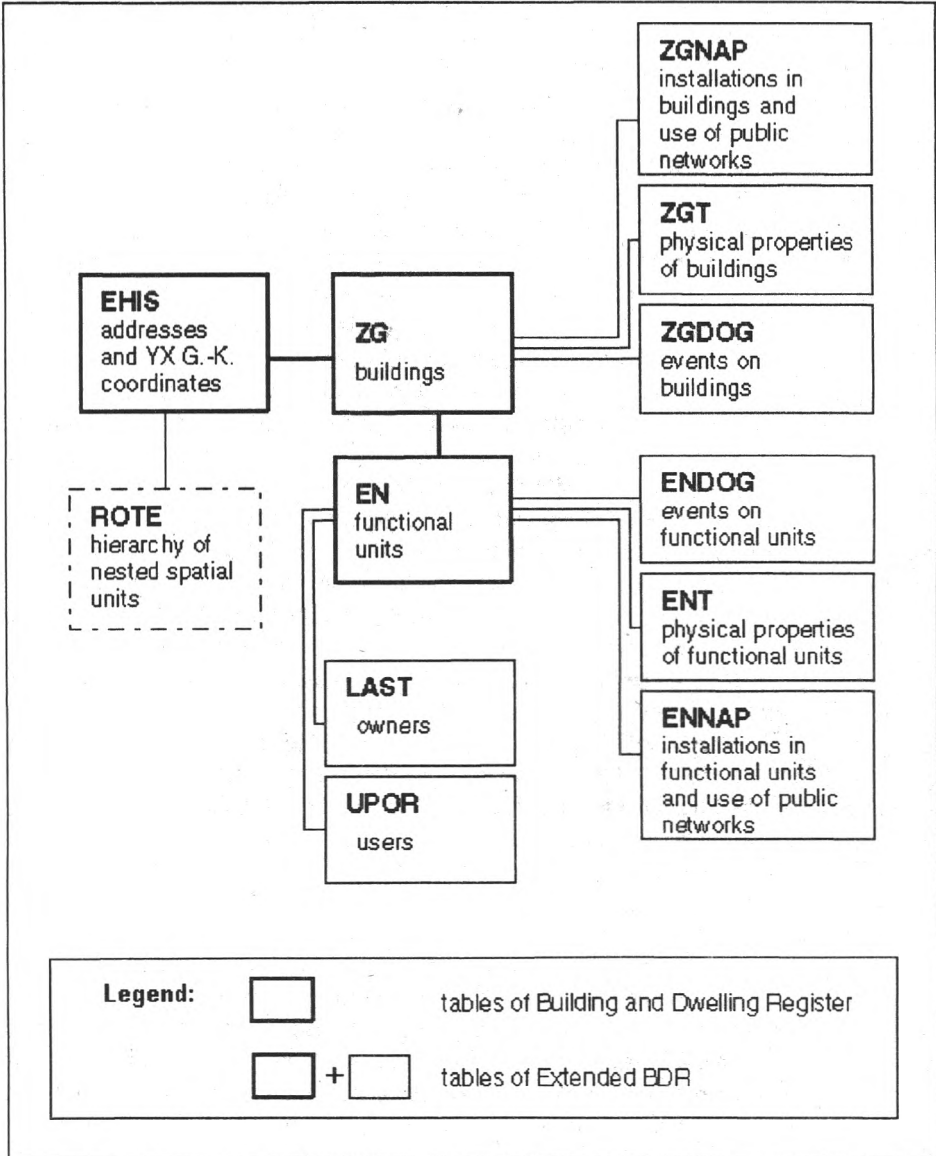


Figure 43.9

Basic and extended database of proposed Building and Dwelling Register in Slovenia



Tables of owners (LAST) and users (UPOR) were formed to monitor locations and changes in locations of different activities. These form the basis for the study interactions between activities in the space. There is such data as: identification of a functional unit; identification of the owner or user; type and property share; date, type and number of contract. If the owner or user of a functional unit was a person, then

identification would be his/her personal number, if it was an enterprise, there would be the enterprise code. A personal number and a code of enterprise are keys for the linkage to the Central Population Register (CRP) and the Central Register of Enterprises (ROS, ERO). In this way the type of enterprise (type of activity at the location) can be easily stated. This is how major or potential polluters can be identified. On the other hand, locations of the so-called “anti-pollution industry” (public utility networks, etc.) can be clearly outlined. In the Hungarian Real Estate Cadastre (in the “I” (map of real estate) inset) and land books, the data about owners is already entered, but no data on users is available. Because users change frequently, it would be useless to enter users into the cadastre. User fluctuations should be registered to provide a database for urban and space management, with BDR playing an important role.

For the purpose of registration of different events on buildings and functional units, the tables of events were formed (ZGDOG, ENDOG). They consist of the identification of a building or a functional unit, type of event, declared and estimated value of the event, its date, the number of document, the code of the office which allowed the event, and the code of the organiser (investor) of the event. The registration of a new buildings can be done already when a new building is being planned or when the parcel is defined as a building site in urban plans. In the table of events, the declared and estimated values are registered too. The declared value is entered during different transactions with buildings or functional units at the communal or county offices. The data needed for filling in the above mentioned tables of events could be obtained from different insets of the Real Estate Cadastre or from the Land Book Register. In the latter, there is data about the declared values of the transacted building or functional unit obtained from the contracts. On the other hand, the declared and estimated values entered in the BDR could serve as a database for Real Estate Cadastre (in “I” and “E” insets). To quickly obtain data for BDR, the data acquired during the process of compensation is very useful (for more information see also Different Acts on Compensation, MF, 1992a). It is also stated that in case of transfer of immobilities the part of receipts shall be considered as income. The market value shall be considered as a receipt... (Act on the personal income tax (PIT); MF, 1993a). The same act stipulates that “the date of acquisition of the immovable or the value right to be mandatorily registered in the land-register is the day when the respective valid contract (deed, court or administrative decision) was filed with the Land Office...”.

The tables of events (transactions) give also a direct insight into the movement of real estate prices and reflect their utility to the optimal potential user. It is wise to monitor maximum values through transfers of rights to use with the declared rents, as well as through ownership transfers, which give real estate prices as a capitalised rent. In case of the latter the estimation of a building or a functional unit in the proposed BDR could be made using some data from the tables of physical properties and installations.

A list of data in the tables of physical properties (ZGT, ENT) can vary depending on the methods of estimation in different countries – or even provinces. There can be such data as: age of building; net area of building, data about roof, building construction, groundwork, type of door and windows; number of rooms and baths in a functional unit; etc. In the Hungarian Real Estate Cadastre there already exists the data needed to construct such tables of physical properties. There is data on the age of the building,

year of its last reconstruction, number of floors, common net area of floors, built area, built volume, type of roof, type of construction, etc., to be found in the inset on residential buildings ("E"). Such data as the number and size of rooms, bed-rooms, small rooms, corridors, ante-rooms, kitchens, bath-rooms and lavatories in a dwelling, net living area in a dwelling is to be found in the inset on dwellings ("L"); as well as other data in other insets of the Real Estate Cadastre (for detailed information see Magyar Közlöny, 1992/112).

For better valuation of the quality of living and creating, some extra data is needed. The location and income have a significant impact on the quality of living and creating. The location of polluters can be shown as a point in the space. Usually, a polluter is related to the public supply networks. Therefore, the impact of pollution can be reduced by properly managing the public supply networks. In the tables of installations (ZGNAP, ENNAP), there are data which show installations in buildings and functional units as well as connections to the public supply networks. Under the entry "identification of buildings or functional units" such data as type of public supply network, number of meter (if there is a meter), and type of installation in the house or a functional unit appear. The number of meters of public supply network is needed for connection to the information sub-system of the public supply networks. In case of Hungary there is a water-works meter in the inset on dwellings ("L"). In the suggested model of the Hungarian Real Estate Cadastre almost all data needed to construct tables of installation is provided. There is for example data on the type of heating, heat conductors, other public supply networks, available waste disposal facilities in the building, number of lifts, etc. to be found in the inset on residential buildings ("E"), and such data as the already mentioned waterworks meter, type of heating and the level of hot water supply in dwellings (inset "L" of the Real Estate Cadastre).

Relational modelling techniques of BDR make it possible for us to construct some additional tables, which form information sub-systems for environmental protection. The tables of chimney or heating devices in buildings could be examples of such tables. Because of the building location definition, an energy card for the building could be drawn. It provides information on energy input and output of a building – energy flows from the energy supply systems as well as input and output from and into the environment. Therefore, the impact on the environment can be easily studied. As shown in Figure 43.10, BDR connects buildings, public utility networks, energy networks, roads to the data bases on the environment, and so some estimations of pollution costs and utility appraisals can be made.

Because of protection requirements of individual data in many countries, published data based on BDR has to be aggregated at the higher levels. The level of census units is thus the lowest level. Because of the nested classification of spatial units, an aggregation is not necessarily made in graphical databases on the GIS tools. Therefore, reports to the national statistics are formed through the hierarchical organisation of spatial units. But data based on BDR can not be aggregated only according to the spatial units. Aggregates can be obtained also by aggregation procedures according to different activities. The code of enterprise in tables of owners and users is the key for linkage to the central register of enterprises. In that way it is easy to separate environmental protection activities (for example different public supply activities) from polluters. Aggregation is possible also according to the type of building.

Figure 43.10

Building and Dwelling Register as multipurpose register in integrated spatial information systems

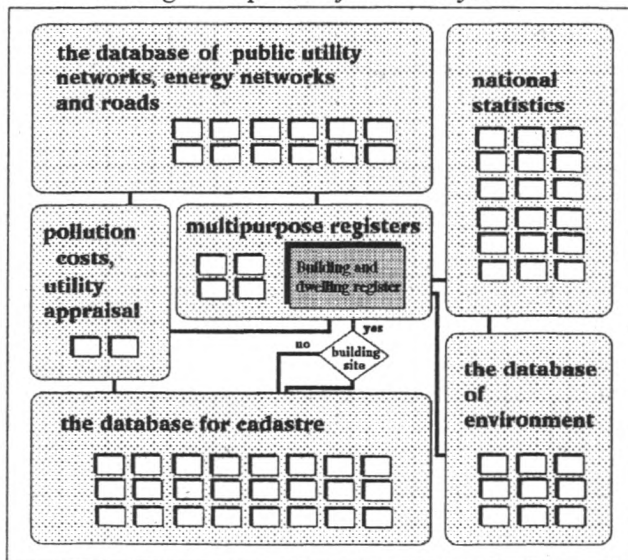
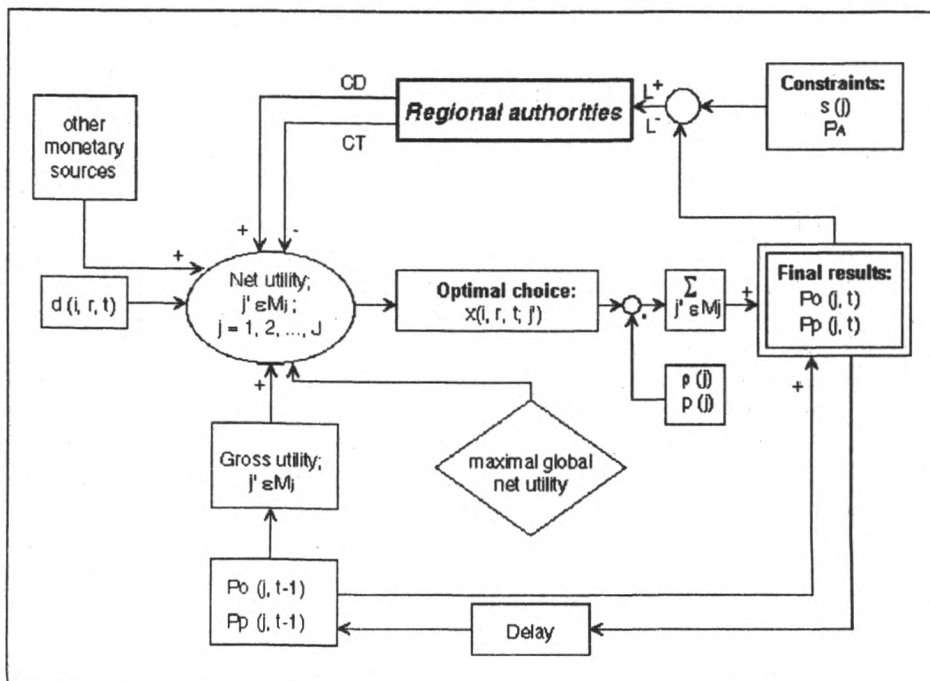


Figure 43.11

Block diagram of urban growth control

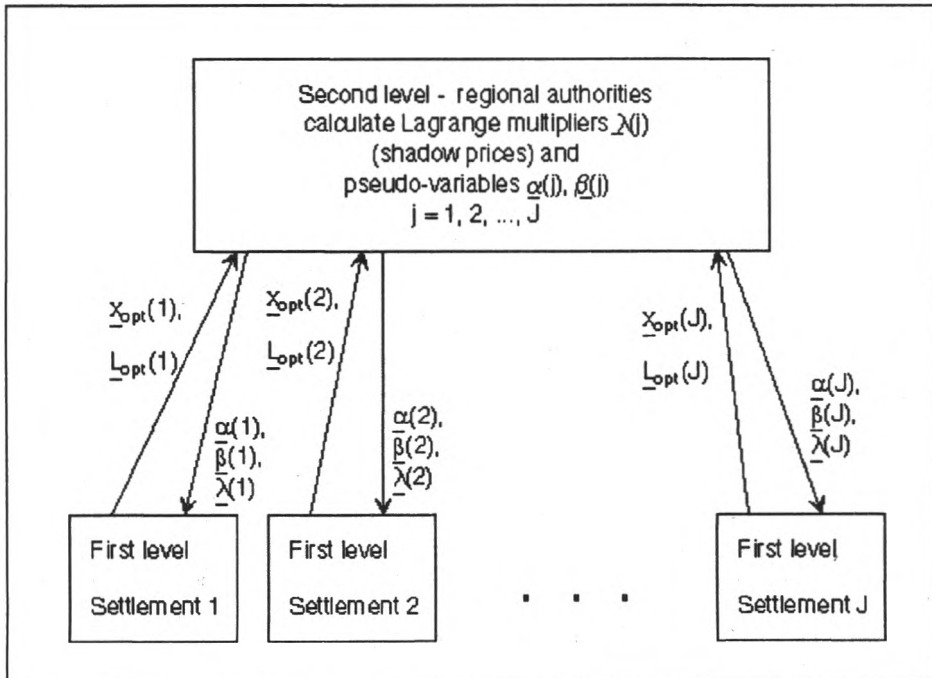


Multiple criteria programming of sized, structure and growth of settlements

To study the influence of a certain fiscal policy, investment policy and planner's restrictions on sustainable development growth of towns and of other settlements, a proper mathematical model based on urban economic results and supported by proper databases is needed. We suggest the model presented in *Figures. 43.11 and 43.12.*

Figure 43.12

Two level optimisation, where $\underline{x}(j)$ and $\underline{L}(j)$ are determined at the first level. At the second level regional authorities calculate Lagrange multipliers $\underline{l}(j)$, which act as shadow prices and pseudo-variables $\underline{a}(j)$, $\underline{b}(j)$



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44 MODERN FORMS OF TELECOMMUNICATION AS INSTRUMENTS AND SUPPOSITION FOR REGIONAL DEVELOPMENT

KARL-HEINZ HOTTES

Introduction

In the EU-countries, as also in Germany and its regions, we can find from 1958 onward many new telecommunicative services, genuine innovations going far beyond the traditional telegraphy, telephone and wireless services.¹ For 2000 there will be expected an almost chaotic differentiation.

Telematics are processing information with computers into new transportable "products" and documents.

We differentiate between *nets/networks*:

- a) with fixed wires/wire systems, which are in the EU-countries, possibly covering the surface. So to speak a first step to ecosocial dispersion;
- b) radio and radiorelay systems, which can be received everywhere by dispersed users,

and *nodal points*, tiering up these nets, often of different species' (i. e. wire and radio nets), from which the distribution and the transformation into other networks and telematic procedures can be carried on. Many satellites also have some of these functions.

Today *bunching* lines is very normal as in:

- 1) several wires within *one cable* or,
- 2) these *different* cables side by side, i. e. for telex and fax or,
- 3) at the points=tiering up of nets/different nets.

Having in mind point-axial systems: planners have to create and/or to guarantee, space for tele accommodations in order to encourage telecom-firms to develop widely ramified diffusion, so that an optimum of socioeconomic equality may be secured. New digital systems, as i.e. mobile telephones, lead beyond the described systems to ubiquitous dispersion, but nodal equipment remain necessary also in future.

Modern telecommunications/telematics: their role in actual regional development²

Some examples will show the importance of the new technology in actual regional development³:

- 1) Modern telecommunication/telematics can avoid travel expenses and traffic itself:
 - a) By savings related to official and business trips, especially. avoidance of *long distance* traffic and/or air traffic with positive effects on environment.

- b) Private people can use STX by television for catalog-choice of goods and telephone-banking. There are also more possibilities for working out of the home⁴ for outside employers. Here we can observe avoidance of local, suburban and regional traffic.
- 2) Higher profits are possible:
- a) By conversion of production⁵ with promotion of divisions – Europe wide or nation wide – for the purpose of a dispersion of locations into backward areas, as well as by promotion/stimulation of “lean production”.
 - b) By conversion of traffic-logistics for big forwardings agents, i.e. their concentration in freight traffic centres⁶.
- 3) Tourist traffic systems here especially centralised booking of accommodations and services in recreation areas and health resorts.
- 4) Development of rural areas⁷ (as well as urban areas)⁸
- a) By integration of rural regional centres and their rural surroundings;⁹
 - b) By opening up of other infrastructures besides traffic, i. e. video conferences and picture telephoning between rural and central hospitals – as well as with local doctors concerning urgent consulting and instruction courses for craftsmen,¹⁰ use of juristic brokers/broker companies for lawyers located in rural areas, university correspondence courses (=teleuniversity);
 - c) By connections into international economic systems, i.e. SWIFT.¹¹
- 5) Other regional and local effects are rising from the foundation of new services and industrial locations connected to modern telecommunications and telematics
- a) Development and production of hardware gives jobs also to unskilled workers;
 - b) Development and production of software need more skilled and highly qualified persons;¹¹
 - c) R and D centres can be located in recreation/leisure areas near to top-centres as Munich, Brussels (Louvain-la-Neuve) Marseille and Nizza (Sophia Antipolis)¹²: yet they do not induce such important employment effects as anticipated before;
 - d) Combined development of a-c at important central places, as can be found now at Frankfurt, Paris as well as in Budapest.
- 6) Also there are rising novel = innovative teleservice locations, which are real new challenges to local and regional planning: *Teleports*¹³ separated from other functions or – for rural areas – “telecottages” and “telehouses”¹⁴, which can minimize disparities¹⁵.
- They can be also be erected in interdependence and sometimes directly adjacent to technopoles, to industrial estates, trade centres (as f. i. “World Trade Centres”)¹⁶ and to freight traffic centres. A proximity to, or a combination with media-, resp. multimedia centres normally are not necessary.

Telecom and telematics as instruments for regional development

Decision making is usual not only a factor in industry, commerce and politics, but is also particularly indispensable in planning, especially in regional planning and at least for making regional decisions.¹⁷ Regional economic promotion can be pushed forward in co-operation with Chambers of Commerce and Industries. Often they deliver

marketing studies and procure know-how for commercial, technical and judicial – based expertis by computer and broker. Actually planning is not possible *without* data banks and especially land register data banks, environmental register data banks together with telematic environmental control and forecasting. Planning depends on exchange of information concerning new projects. Border overlap – planning, also a necessity for an unified Europe, presupposes identical telematic systems and comparable software.

Here are some first examples of a successful use of telematics in planning and the conversion of planning/ sectoral planning into a sustainable reality:

1. Example: Since 1989 a planning-service network in German Hochsauerland county exists as a test/experiment for 5 years. County-offices at three different towns are interconnected by a video conference-system. Firstly it has been run with a copper-cable. But two megabits were too weak for good reception; now glass-fibres work much better. This system is used for direct discussions on planning details (with plans and maps), for answering the questions of new investors, a. s. o. It has done so well that a next step from 1994 onward will bring the installation of an ISDN¹⁸ multifunctional network (380 megabits) to connect the PC's from the employees/officers desks into different data bancs and into the decision-teams (also of politiclans) as well as for the interchange in/between municipal administrations and their planning-bodies. Such a system might be recommended also for the wide spread Hungarian counties.
2. Example: Developing planning areas cannot be possible without profitable agriculture: Therefore Irene le Roch¹⁹ recommends systems developed in France, where "minitel vert" is already used by 80,000 farmers; in Normandie 26 per cent, in Brittany 23 per cent of all farms are connected to this system. It is applied for many sided activities: market data, for the exchange of informations concerning artificial insemination and milk quality as well as for bookkeeping-assistance, up to preparation of balances and status reports. Hose systems are working by telecopying, minitel and vocal synthesis.
3. Example: For the introduction and promotion of modern telematics into samll- and middlesized firms, the EC has started different programs.²⁰
4. Example: Malaysian co-operatives as well as plantation companies are managing by telematics: rural production processing forwarding export of natural rubbers.

One decisive supposition: efficient education

In order to run modern telematics and to modernise the socioeconomic system, a suitable education is necessary. Within an information society with telematic planning we have to establish as i.e. at Singapore specialised centres for training in telematics!²¹

Conclusion

It should not be the task of this paper to spread theories and facts as to whether modern telecom and telematics will effect more concentration or more dispersion in the regional order.²² This has to be integrated into the newly growing inter-European context.²³

But generally they can better the socioeconomic situation in rural and rural-industrialised areas on the way to a sustainable development²⁴ and promote the exodus

of functions from overcrowded CBD's²⁵ into suburban and rural areas. But it is my opinion/experience that a *total* change of a nation's regional structure, if monocentral or bicentral, to a multicentral regional system by adoption of those modern technologies, is impossible.

Notes

- ¹ Kellerman, 1993.
- ² De Smidt, 1990.
- ³ Some examples of last publications: Gassot-Miralles, 1990, Gräf, 1992, Howells, 1988, Läßle, 1989, Kellerman, 1993; Geofgieff and others.
- ⁴ Bakis, 1992.
- ⁵ Bakis, 1988, Meyer-Krahmer 1989.
- ⁶ Gräf, 1993.
- ⁷ Gräf, 1992.
- ⁸ Lavocat, 1993.
- ⁹ Erdösi reports for Hungary that the growth of fax was quicker in the rural areas than at Budapest and the spatial diffusion of fax and other services (1992a, 1992b); for the "Ruhr" and its surroundings Hottes, 1989.
- ¹⁰ Mensing, 1991 for Hamburg.
- ¹¹ Hottes, 1987 and for comparison the case of Salazar-Volkman, 1994.
- ¹² Bouisson, 1987.
- ¹³ For definitions Jacob, 1993, more generally Jacob, 1992.
- ¹⁴ Bakis, 1987, Briole-Lauraire, 1990 for Bordeaux-region, Jaco, 1993 for Roubaix, Metz, Amsterdam, Liège.
- ¹⁵ Gassot-Miralles, 1990.
- ¹⁶ Metz, where in the "World Trade Centre" all the office-space has been rented.
- ¹⁷ For local administration bodies see Betz, 1989.
- ¹⁸ Generally for Europe compare Armbak and esp. Gassmann, 1989.
- ¹⁹ Le Roch, 1993.
- ²⁰ The first was "Star": Journal Officiel (1986); for first results: Lauder, 1990; esp. for Hamburg: Mensing, 1991.
- ²¹ Hottes, 1994, Manuscript, p. 4.
- ²² De Smidt, 1990, Lavocat, 1993, for many remarks: Kellerman, 1993.
- ²³ For the former EC: Caty-Ungerer, 1984, generally for the future: Hurst, 1991.
- ²⁴ Interdisziplinärer Arbeitskreis ... (1989) and there esp. Hottes, 1989b.
- ²⁵ Kellerman, 1993.

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45 INFORMATION ECONOMY, NETWORKS AND REGIONAL THEORY. TOWARDS A THEORETICAL MODEL

SERGIO CONTI-EGIDIO DANSERO

Introduction

Theoretical reflection and empirical studies on the subject of regional development are going through a phase which is difficult to interpret, yet in which it seems clear, at least from a superficial reading, that the theoretical deadlock has been overcome. The strong paradigms which dominated the scene up to the end of the seventies – primarily, the modernisation paradigm and the dependency approach – have revealed obvious limits, both in their theoretical construction and in their ability to explain real phenomena. The later attempts to formulate new theoretical proposals through an operation of conceptual do-it-yourself aimed at merging concepts from heterogeneous approaches seem to have added new limits to the ones already unresolved left by previous paradigms.

On the other hand, it is worth underlining the intellectual wealth which is behind these attempts, certainly still confused and, in many ways, contradictory, to construct or define alternative theories, or rather visions of a different development. These are not so much essentially new contributions that one or another writer has offered as the objective convergence of voices and approaches which had long lain underground or been relegated to the sidelines of scientific debate, and which the crisis in the dominant paradigms brought to light. The most important writings in this direction began to appear in the seventies (*Sachs*, 1980; Dag Hammarskjöld Foundation, 1975; *Friedmann-Weaver*, 1979; *Stöhr-Taylor*, 1981; *Bresso-Raffestin*, 1979; *Cuhna-Greer-Wootten-Racine*, 1982), although it is necessary to look for the roots of what Hettne defines as the *counterweight* to the Western thought of development in pre-modern structures: this counterweight “has been the bearer of many different interests and has appeared in various historical contexts, but has fundamentally maintained the innate superiority of models of social development which are small scale, decentralised, ecological, stable and humanly sustainable” (*Hettne*, 1986).

We chose to talk of visions of alternative development, not so much to underline and exaggerate their utopistic and neo-populist features (*Gore*, 1984) as for the fact that the contributions cited above have not led to the construction of a well-formed development theory. On the contrary, they express a variety of approaches which range

from pragmatic strategies to regulatory frameworks (*Sachs, 1988; Friedmann, 1992; Stöhr, 1984; Taylor-MacKenzie, 1992; Cuhna, 1988*).

For the purposes of the following logical construction, we would like to identify some milestones (without any claim to being exhaustive), some concepts which, partly as the legacy of previous paradigms, partly as the contribution of new approaches, constitute key points in current thought on development.

One fundamental point that the debate on development theories has now acquired is that of the multi-dimensionality of the concept itself, breaking with the reductionist and economic outlook which has reigned so long, both on the level of theoretical thought and, above all, of policies and strategies (*Hettne, 1986*). "However it is used, the term 'development' puts society on to a historical track of universal validity, insinuating that the champions show the way to the stragglers and promises that any success will be the result of a systematic plan. Even those who have not believed in economic growth for some time evoke notions of universality, progress and feasibility when they talk of "development" (*Sachs, 1992*).

Another important point in the debate is the attempt to overcome deterministic and single-strand models. The most profound criticism to the modernisation approach underlined its evolutionistic and ethnocentric nature, highlighted by the contrast between modern and traditional. The dependency approach had already sidelined the idea of progress as a linear and more or less automatic process. Its criticism did not, however, really manage to bite into the purpose and meaning of development. The most systematic introduction in the analysis of the economic development of the territorial dimension has implied the acknowledgement and the valorisation of local specificity, identity and culture, admitting the possibility, if only from the theoretical point of view, of a plurality of possible development paths. It is above all on this plane that different lines of research have converged: on the one hand, the literature on industrial districts (*Beccatini, 1987, 1989*), on "development from below" (*Stöhr 1981, 1984*) and on endogenous and self-centred development and territorial and "agropolitan" development (*Friedmann-Weaver, 1979; Friedmann, 1992*), on eco-development (*Sachs, 1977, 1980*) and so on; on the other hand, the literature on economic development, especially the part promoted by "non-orthodox" theoreticians such as Hirschman and Seers (*Garofoli, 1992*).

In effect, the territorial dimension of development (as opposed to the functional one) assumes a central role (*Friedmann-Weaver, 1979; Raffestin, 1980*): it is the premise necessary to give weight to an idea of development no longer based on the assumption of a "single" possible process of transformation which would inevitably pervade the whole economic system, but on that of the plurality of possible conditions and forms of development.

The territorial development: criteria, concepts and logic

The concept of territorial dimension of development evokes the concept of *local development*, now consolidated in the literature (*Coffey-Polese, 1985; Cooke, 1989; Lovering, 1988; Urry, 1987*), which implies a process of activation of specific territorial factors of transformation. In this light, it is far from those restrictive interpretations of a normative nature (such as those given by *Coffey-Polese, 1985*) according to which a process of local development is understood as endogenous development activated almost exclusively by local actors. Local development, on the

contrary, does not refer to the idea of "localism" which, theoretically and practically, regards a problem of territorial rooting in the strict sense, and does not even coincide with the idea of a small peripheral area (which became very fashionable a few years ago with the "rediscovery" of the so-called Marshallian industrial districts). In the sense used in these pages, the idea of local is *not* a dimensional concept but a way of conceiving the territory independently of scale. Geographically, it is a physical space endowed with substantial *specific features* and for this reason, alludes to the very dissolution of the concept of peripherality (unsurprisingly, the centre/periphery dichotomy is not applicable to the theory of the local) (Giusti, 1991).

Given these premises, local (territorial) organisation constitutes a *structural component* of the overall articulation of advanced societies, not in opposition to processes of a *global* nature and of internationalisation which mark the development of capitalistic economies. In fact, by its very nature, the process of globalisation does not directly produce "models" of production organisation or territorial transformations, but it refers to a strategic sphere of "immaterial relations of power" (Gatti, 1991), based on the opportunities to establish relations of complementarity between global and local beyond the simple duality of dominance/dependency.

What has been recalled above are the premises necessary to give weight to an idea of development *no longer* based on the assumption of a "single" possible process of transformation which would "inevitably" pervade the whole economic system, but on that of the plurality of possible conditions and forms of development. And the circle is completed: the notion of *local development* in this perspective acquires the meaning of a particular approach to the problems of development, differing from the idea of local *valorisation*, where the territorial system is understood as a passive support to more global processes. This approach does *not* appear to be traceable back to repetitive models, but is "marked", on the different geographical scales, by a specific and virtually unrepeatable set of decision and production situations, based on a historically sedimented social dynamic. And it is in this way that the regional economists' concept of *space* is substituted by the concept of *territory*, understood as a "set of concrete and symbolic relations", produced in the course of *historical concatenations of multiple local transformations and reactions* to strong structural determinations, in other words to more general economic and social processes (Pecqueur, 1987; Jalabert et al., 1991; Raffestin, 1980).

In this light, a local system, as a concrete set of territorialised structures and actors, of specific historical and institutional features, holds a *non reproducible identity*: thus becoming a fundamental stone in the interpretative framework.

The approach: multidimensionality and complex systems

Multi-dimensionality and plurality of development paths are to be seen against the background of a fundamental acquisition of an epistemological type, with profound implications on reflection around the subject of economic and regional development: the re-integration of the observer within the system observed (Morin, 1985). This is obviously not a new principle. The ingenuous classical claim to separating thought from facts (i. e. considering the latter as independent of the subject), like the critical method incarnate in the principle of falsifiability, now face a real challenge with the affirmation of hermeneutic theories (Habermas, 1988) and with the reintegration of the

observer within the observed system, which has accompanied the most important theoretical results of contemporary epistemology (*Piaget*, 1975; *Varela*, 1979; *von Foerster*, 1985).

It follows that the representation of reality can be understood as the *legitimation of a theoretical system of reference*, i. e. as the logical explanation of predefined concepts and values: reality is thus assumed, a priori, as "already" having been interpreted – epistemologically pre-understood – or in any case pertinent to a system of values.

In reference to reflection on development, it is pressing to underline two types of implication: firstly, the explanation of what we could define as the "Western rationalism" (*Morin*, 1985), which characterised the early days of cultural anthropology and has dominated in the field of development theory, and has only recently been highlighted. It is evidently not only a question of what development is and of how it can be measured and promoted, but it is above all a question of who says so, in what terms and to whom (*Pieterse*, 1991).

The second implication, which is important for the continuation of our analysis, is that of the point of view that the observer takes: it can be internal or external to the object considered. In the field of regional development, this means that the observer, conscious or not of this viewpoint, can assume an outlook which abstractly we can call local (internal) or global (external). An active observer (or conscious of his activity) can consider a number of local and global outlooks; a passive observer, not realising what makes the production of its representations and descriptions possible, can only assume either a local (internal) or global (external) outlook (*Dematteis*, 1990). The questioning of Eurocentric prejudice in the outlook on development can thus be interpreted as the external (global) viewpoint of a passive observer, for whom the local is part of the global, i.e. a portion of the earth's surface. But the global is identified with an "inflated local" (*Serres*, 1980): i.e. the world seen through the eyes of 16th century Western European culture.

From the epistemological point of view, the possibility of adopting simultaneously (without reciprocal exclusion) a global-external and local-internal outlook finds its coherence, in the paradigm of complexity (*Dupuy*, 1982; *Bocchi-Ceruti*, 1985). In fact, the problem is therefore that of researching out the means to conceptualise and interpret a reality seen in the form of complex phenomena, i.e. non reducible to a priori schemes of explanation, epistemologically univocal and implying a multi-dimensional approach.

This is clearly not the place to throw the idea of complexity into the ring. Suffice it to recall that at a time when it is increasingly difficult to interpret socio-economic phenomena through the "unchanging" laws which have dominated scientific thought in the post-war years, the need for theoretical reflection becomes vital and the problem of complexity raises itself inexorably: this is something which appears when, as Lakatos stated, a situation cannot be generalised with a priori schemes of explanation. It contrasts the tradition of Western epistemological thought, which has concentrated for decades on the problem of rationality, scientificness, empiricism and falsifiability, cultivating the principle by which the task of theory was to organise schemes of interpretation aimed at reproducing the myth of simplicity (quoted by *Morin*, 1987).

When complexity imposes itself, the idea of "system" therefore becomes essential (and the evolution of the system approach is itself a constituent of complexity theory in

its progressive rejection of simplicity and reductionism). The system approach, in fact, is characterised by its function of explaining phenomena which are, by their very nature, invariably complex: in this light, it aims at providing a "teleologically ordered" synthesis of elements and relations. Moreover, it possesses a strong epistemological and conceptual sense; far from constituting a model, systemic theory represents a unifying scheme of knowledge: in this sense, it is thus a conceptual theory. It represents therefore both an instrument to integrate the various dimensions of reality, and a conceptual structure aimed at the organisation of theoretical reflection.

At the present state of systemic elaboration (the works by Prigogine, Wilson and the school of Brussels in general), the idea of the complex system implies both *openness* and *autonomy* (Prigogine–Stengers, 1979, 1988; Wilson, 1981; Allen, 1981; Allen–Sanglier, 1981):

- in terms of the first aspect, the system is *open* in as much as its organisation is conditioned from the outside, in other words it is subject to "disturbances" and stimuli which spread more or less rapidly in society as a whole (think, for example, of the innovations capable of provoking qualitative changes in the organisation of the whole system, from which the importance of the analysis of regulation processes derives). These metasytemic transformations are at the same time only "artificially" separable from
- internal transformations. This second aspect implies the capacity of the system to organise and restructure itself permanently under the effect of shocks from the outside. In this light, the *autonomy* of complex systems' refers to their organisation and their organisational capacity: being *organised*, a system possesses the ability to reproduce and transform itself. The closure of a system should not, therefore, be understood in an ontological but in an organisational sense.

This last point is a fundamental conceptual question: the idea of self-organisation immediately evokes an "order" which emerges spontaneously from actors' actions and represents the condition which ensures, in change, the transmission of its internal coherence. In other words, the *identity* of the system derives from its organisation (which is far from being a simple juxtaposition of elements) and its structuring is the outcome – both dynamic and evolutionary – of collective action. *Time thus becomes the decisive theoretical instrument for the study of the trends of complexification of society.*

In this light, *complexity* and *territoriality* acquire full meaning:

- on the one hand, priority is given to overall logic rather than the logic of the parts and the accent is placed on the interactions between the structure and its functioning (Bartoli, 1991);
- on the other hand, territoriality is the expression of a *temporal process* of self-organisation (Luhmann, 1983) achieved by actors working within a network and therefore expressing synergic and evolutionary effects. Territoriality thus appears as a fundamental "organisational conquest". Only at a territorial level does a society (and an economic system), in fact, draw advantage from specialisation and integration: for example, reducing transaction costs, contributing to the realisation of collective learning, or to the production of innovation.

The problem arises at this point of the description of the structure of complex systems, i. e. the relations between the whole and its parts. It is in order to make complexity intelligible that the concept of *network* has asserted itself: not in its literal sense, as commonly used in economic and spatial studies, but in a figurative, metaphorical sense, in other words as an “abstract means of representing relations and connections between actors” (Dematteis, 1991). In this sense, the network refers to a stable set of relations between actors, “seen as relations between places where the same actors are located” (Dematteis, 1991): the term *global networks* in general means the networks of cumulative circulation and reproduction of transnational financial and information capital, through which a function of strategic control of the economy, society and culture is exercised: Under this heading come: a) the global networks of multilocated organisations (institutions, enterprises) and b) the global networks of cities and regions. The *nodes* of these networks are, respectively: a) the local units or the enterprises joined in a network by stable co-operation agreements and b) the single local urban and/or regional systems, which combine internal synergies with network synergies.

The term *local networks*, in its turn, means sets of relations between different actors – both local and global, belonging to one or many global organisations – self-contained in a local system.

In this framework, the concept of *socialisation* (suitably stripped of references to cultural anthropology which reduce its sense) outlines, on a collective level, a process of self-construction of society as an entity that goes well beyond the simple sum of its individual components. On this point, it is precisely the *network* which is one of the models which allow the process of socialisation to be represented: it is situated at an *intermediate* level between individuals and the system of local action (including those social phenomena which can *not* be traced back to a network form). Thus, *socialisation networks* constitute the forms which structure the system, which materialise locally. In fact:

- the simultaneous presence is, in fact, dominant (compared to the relations which the local actors can establish with the outside), easing communication and informal interaction;
- territorial identity is an element which structures symbolic socialisation;
- finally, territory allows the linking and mobilisation of individuals belonging to different institutions and organisations.

The territory, in this sense, *never creates networks directly*, but favours the constitution of relations between actors which are socially close. The latter, belonging to two main categories of social entities – individuals and institutions (enterprises, political, educational institutions etc.) – materialise “formally” in a multiplicity of socialisation networks, in which the separation between them is reduced. In addition, and this is highly significant, even economic actors lose their autonomy, linking themselves to local social practices.

At the same time, the network of local reactions interacts with other territorial levels (and networks) *through the intermediation* of actors and their networks. Simplifying, this affirmation leads, in conclusion, to the identification of a dual network level (or scale) (Dematteis, 1991):

- a) a *global level* (source of external stimuli) where the networks connect nodes which are local systems;
- b) a *local level*, a collection of relations between different actors (nodes), self-contained in a territorial system.

The local/global dialectic is thus represented in the node/network form. Its dynamic will be dealt with later schematically.

The local/global dynamics as network dynamics

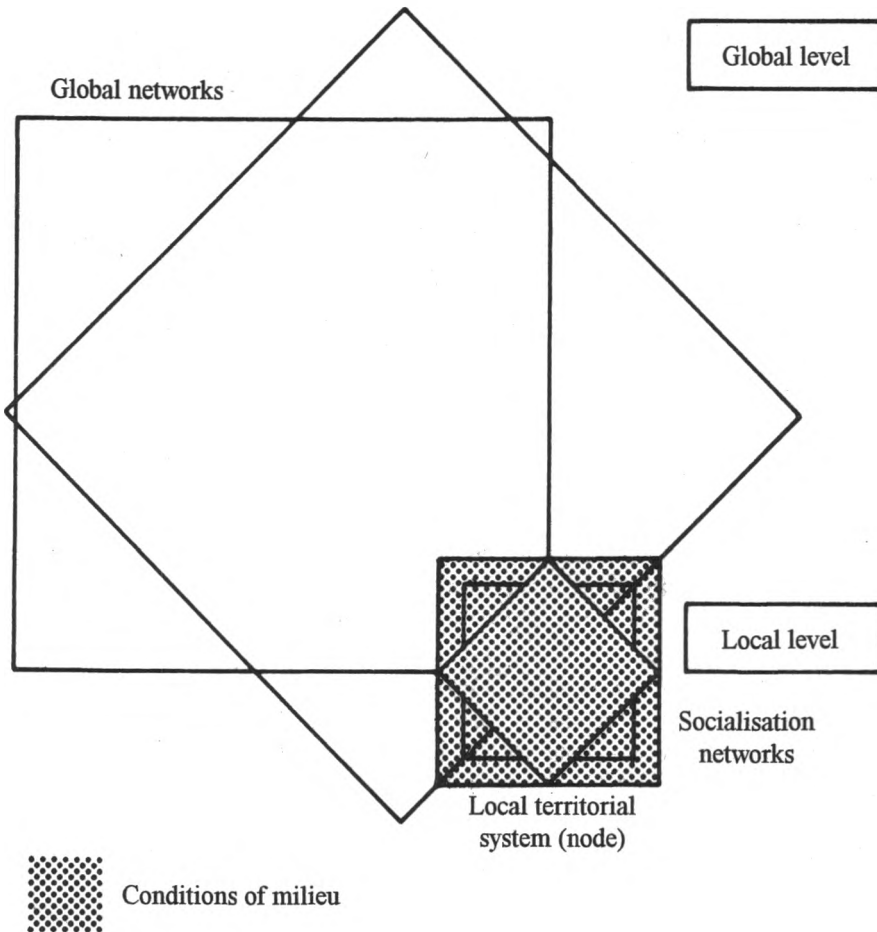
The conceptual contributions discussed so far are represented firstly in *Figure 45.1*: on the two levels identified (global and local), a network should be understood in the strong sense, self-referential and self-poietic, i.e. characterised by *operational closure*: the global network of a multi-located organisation is such, as is a network of cities or regions, or, finally, a local network of relations between actors.

Circumscribed to local networks, as we have seen, it is the actors (individuals, institutions) which interact, and *not* physical structures. Despite this, a *system* (node) is always territorialised, in that the set of relations between actors is always based on natural and socio-collective conditions and resources (the *milieu* conditions) which feed the global networks: this also explains the paradox by which the more something is global, mobile and standardised the more it requires a set of conditions which by their very nature are local, immobile and specific in order to function.

Assuming a certain level of conceptual abstraction, in the structuring of a local/regional system (and therefore in the dynamics between this and the global level) *space and time overlap* as a consequence of its organisation and behaviour. Let us reconstruct briefly the logic which constitutes the theoretical and conceptual basis of the model.

- 1) A complex system is inevitably an open system (here we are far from *Forrester's* systemic interpretation, 1971). Not possessing the degree of coherence and autonomy of biological systems (*Pumain-Sanders-Saint Julien*, 1989), its borders are shadowy, but not for this lack the cohesion and durability necessary to be taken as an entity.
- 2) A complex system does not respond, in any case, to the logic of open systems developed by von *Bertalanffi*, according to whom a system, in its permanent state of flux, tends towards the establishment of an equilibrium. Modern systems theory tells us that not only two possible states exist – balance and imbalance – but a plurality of possible states, marked by successive bifurcation, which cannot be determined a priori. This means that a given level of organisation can be interpreted and understood only through the knowledge of those that have preceded it. The structure of the system thus holds the “memory” of previous bifurcations, “which appeared in the course of its history and which have marked it irreversibly” (*Pumain-Sanders-Saint Julien*, 1989). Instead of moving towards equilibrium, the system is in a state of permanent imbalance and continual readjustment: we are therefore in the presence of a historicistic conception of spatial systems (*Allen-Sanglier*, 1981).
- 3) The maintenance of the *identity* of the (regional) system is a dynamic problem which implies at the same time a *continual increase in complexity*, created by

Figure 45.1

The components of the global/local dynamic

successive transformations in the framework of a process of self-organisation. In this light, the system is self-referential and can respond to the model of self-poiesis (Maturana-Varela, 1985, 1987; Geertz, 1987; Luhmann, 1989): the environment is thus seen as a source of disturbance independent of the definition of its organisation. In other words, it can set off, but not determine, the course of transformation (Vagaggini, 1991; Tinacci-Dini, 1991). The source of "external stimuli" can, in our case, be traced to the global network-system and the local systems are consequently different systems, each with a distinct identity and therefore with its own capacity for autonomous behaviour, governed by internal rules: the latter, providing specific (local) answers to general (global) stimuli

constitute the genetic component of the system (and this is the principle of *operational closure*).

- 4) The dynamic of the system is thus included in a global/local dialectic. "Local resources" become values for the local systems, and not as a consequence of an action coming directly from outside. It is, instead, the system, at given moments, which translates its own specific features into exchange values aimed at circulating in the global networks (according to a *structural coupling* relationship). It is therefore a representation which contrasts with the "normal" models (of the centre-periphery, innovation diffusion types etc.). Now, while in principle the possibility of being part of the global network is offered to each system, in reality a local system is not always able to do so (i. e. capable of selecting relations with the outside): this can lead to fragmentation, to local non-development, or at times to simple valorisation, implying external constraints and dependency.
- 5) As they become more complex, local/regional systems tend to acquire a multiple composition i.e. to be made up of local actors *belonging to a number of networks*, both local and global, while interacting locally in a single *milieu*, in relation to which they always show a certain degree of cohesion. And here we have completed the circle: the milieu relations (traditionally known as *vertical relations*) are not enough to explain development. These conditions need to be taken as a value in a much vaster network: i.e. vertical relations need to be combined with supralocal *horizontal relations* (exchange relations, but above all agreements between enterprises, information exchange, more or less formalised co-operative practices). This is a structurally dynamic scenario, a consequence of the dialectic between cohesive forces (of endogenous origin) and (exogenous) ones leading to fragmentation which are the basis of the relations of "structural coupling" and of transformation of the system.

The model

Figure 45.2 represents the elementary typologies of regional systems in the light of the local/global dialectic understood as a global network system/local network system dialectic.

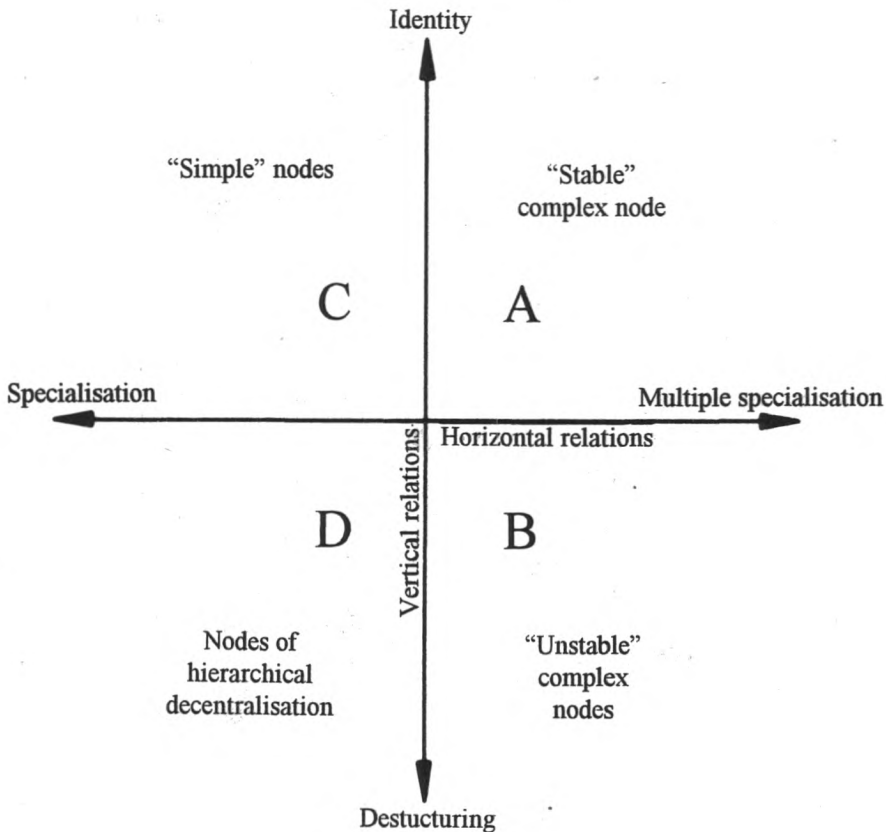
The axes thus refer to the elementary properties: the term *vertical relations* represents the non-reproducible (milieu) resources, while the term *horizontal relations* represents the supra-local connections between economic actors, i. e. the network relations which, as we have seen, cannot be created independently of the former.

The arrows (1) indicate respectively the trend towards:

- a) *the identity* of the system, as the expression of great complexity and organisation, and therefore capacity for the selection of relations with the outside world and for response to environmental stimuli (disturbances);
- b) *local destructuring*, the expression, in contrast, of low organisational capacity and susceptibility to fragmentation.

The arrows (2) express, in turn, the *functional endowment* of the system (innovative, rare, banal functions etc.) which are or can be valorised in the wider global scenario:

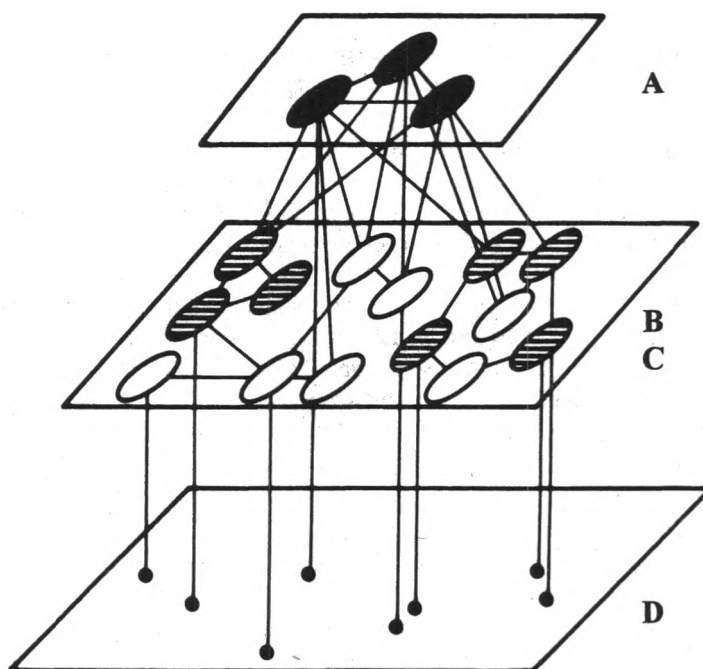
Figure 45.2

Elementary typologies of local network systems

- a) *multiple-specialisation* implies the contemporaneous presence of territorially and functionally highly interlinked multiple functions. Tendentially rare and innovative, they express the presence within the system of a number of local actors and networks related dialectically to each other and to global actors and networks;
- b) *specialisation*. Here, the functions played by the system are poorly innovative and the industrial sectors present are poorly diversified: this implies highly selective (specialised) links with the higher level networks.

The four squares summarise the *complex attributes*, allowing the highlighting of different typologies of local systems (or nodes), which are also represented in the three hierarchical-functional levels in *Figure 45.3*.

Figure 45.3

The functional levels of the global network system

Key: A=Level of economic, technological, political and cultural dominion and leadership;
 B-C=Level of network complexity, of economic specialisation and evolutionary dynamics;
 D=Level of hierarchical dependency.

Type A – Tendentially “stable” complex systems in which the maximum of functional openness (or capacity for dialogue with the outside as a consequence of the plurality and complexity of specialisation) and the maximum of internal organisational coherence and capacity are combined.

There are at least four “models” of local (urban, regional) systems which answer to these characteristics:

- the *world city*, where the degree of interaction with the outside and the structural complexity of the system are visibly accentuated. Without these cities, the functioning of the present system of economic relations on a world scale would be unimaginable: they contain, in fact, clusters of top level services (Friedmann, 1986; Smith-Feagin, 1987) which operate through access to the highest number of networks on a planetary level, characterised by a “critical mass” of actors (Soldatos, 1990) which overlap a structural social segmentation (or complexity);
- the *technological district*, which can inevitably be read as a complex local network of interactions (between structures, enterprise, institutions etc.) which produces technology and knowledge for a virtually planetary system. In reality, like all these abstract models, it can be broken down into different typologies, as a

- consequence of, for example, the different means of interaction between the actors present (the State, enterprises, local government, universities, military structures etc.) (Malecki, 1991; Benko, 1990);
- *industrial regions in technological and organisational transition*, which also respond to different logics of transformation, so the actors involved and the evolutionary trajectories differ. As a whole, they are founded on consolidated networks of socialisation and close interaction with the local milieu. Here, the transition may occur:
 - a) in continuity, confirming the manufacturing vocation but redefining the relations between the actors present (for example, mitigating the traditional hierarchical relations with organisational forms of "vertical quasi-integration" or models of enterprise relations of the "just-in-time" type) (Enrietti, 1983; Linge, 1991);
 - b) at other times, it can be accompanied by relative deindustrialisation and by the development of technological and business services. As a whole, competitive pressure and incessant process innovations induce the establishment of new bonds between enterprises, and between enterprises and other institutions, repositing the industrial-metropolitan area as a protagonist;
 - *mature industrial districts*, i. e. "evolved" forms of systems usually specialised in traditional production areas. As relations of co-operation/complementarity come to be established between enterprises, the system decomposes and recomposes itself, creating more or less complex networks of production interaction, in part also using innovations (above all process ones) of endogenous origin. The recent evolution of some local systems is, in reality, accompanied by processes of selective decomposition, through which some have tended to express highly innovative behaviour and to differentiate themselves in terms of specialisation, gaining access to internationalisation but not denying the intrinsic features of the small enterprise (Conti-Julien, 1991; Tinacci-Dini, 1991).

Type B - "Unstable" complex nodes, which include those systems "potentially" open in a functional sense. The capacity for dialogue with the global networks is, however, mainly "temporary", as a consequence of the relative vulnerability and internal organisational weakness. In other terms, the actors present appear *more integrated on the level of the global networks than in the local system*.

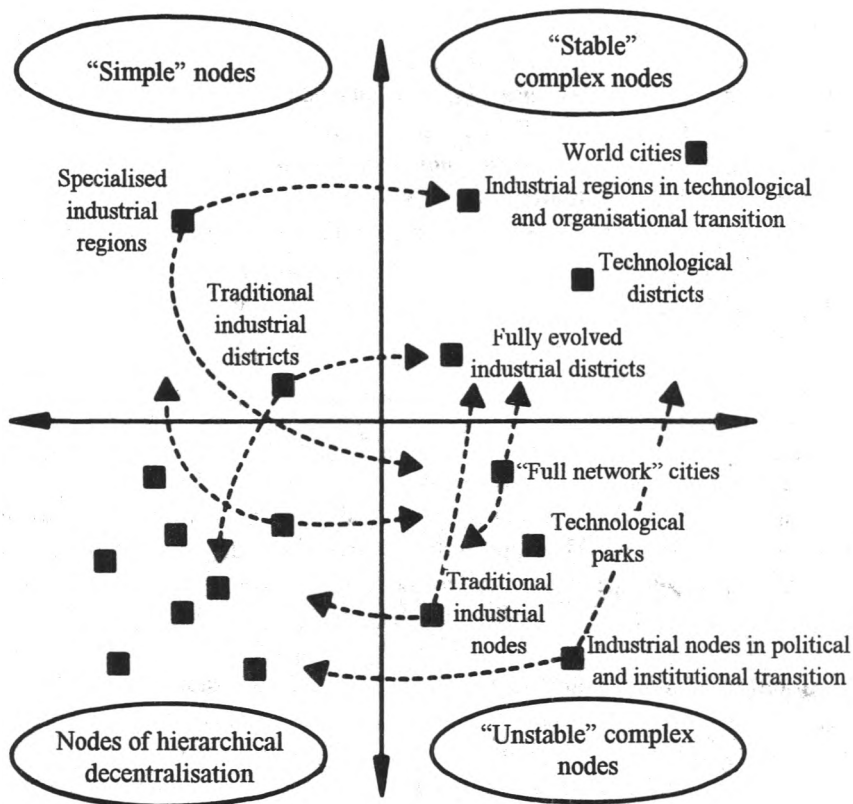
Again in this case, at a high level of abstraction, it is feasible to identify different models of systems:

- nodes in *political-institutional transition* (as, for example, in the urban-industrial regions of post-socialist countries), or nodes whose global function depends more on their geopolitical position than on relations with an organised local milieu;
- "*full-network*" centres of financial transaction. Interaction with the global levels, obviously active and complex, is accompanied, however, by weak or no territorial rooting;
- *technology centres and parks* not evolved into the district form (such as those expressed by local or national "voluntary" policies and therefore poor bearers of historical "memory");
- "*traditional*" industrial regions where the structures present show a certain viscosity in relation to structural environmental disturbances.

As a whole, the instability of these systems depends on the uncertainty of possible reactions when faced with unforeseeable structural changes. Successive bifurcation can thus induce differing systemic evolutions, simulated in *Figure 45.4*: “constructing” and strengthening the organisation, or producing destructuring and local environmental fragmentation.

Figure 45.4

Simulation of evolutionary dynamics



Type C – “Simple” nodes, in which the strong and deep-rooted identity is accompanied by few and “traditional” functional specialisations. Consequently, dialogue with the outside is not very pluralistic, i.e. it is limited to one or few networks (of import-export, access to technology transfer etc.). At the same time, it is resistant in time, as a consequence of precisely this rooted specialisation and identity.

This group could include:

- *traditional industrial districts*, whose success on the contemporary economic scenario is often a consequence of the valorisation of endogenous conditions present in some regions marginalised compared to the great processes of post-war

industrialisation. Local network relations are highly organised and the system has been able to evolve (under the pressure of the great metasystemic transformations illustrated earlier) from a craft to an industrial system, with innovation essentially in terms of growth and well-rooted working practices;

- *industrial cities and regions with specialised structures* (old urban industrial regions, sometimes development poles). Rooted specialisation has induced the formation of socialisation networks that are strongly territorialised but inflexible with regard to rapid later evolution. In this, as in the previous "model", future changes could induce unforeseeable deviations: towards situations of greater complexity but still of "instability" and functional "dependence".

Type D – Nodes of hierarchical decentralisation, finally, usually destructured, cover a fairly wide and heterogeneous range of situations. They express limited, not yet developed or already compromised endogenous potential, and their membership of the global network is casual – i. e. linked to specific contingencies – and, in any case, even if stable in time, of a *dependent and not complementary* type, although there may be forms of territorial valorisation. As is well-known, they respond to the search for conditions of externality (labour input, semi-products, political and legal conditions etc.): the decentralisation of production plant is usually the origin of their formation, and the presence of a "strong" node which organises and directs dynamics can be expected.

Conclusions and unresolved problems

The results attained are inevitably partial and the whole discussion, of great synthesis and abstraction, has inevitably neglected the greater complexity present in contemporary world. Faced with a framework like the one put forward, implying both epistemological deconstruction and reconstruction and a number of disciplinary paths to follow, these conclusions cannot but recognise the limits of the discussion; limits which are at the same time stimuli for further conceptual development.

These stimuli go back to the need to reach fuller definition (including operative definition) of *socialisation networks*. In this light, only the analysis of a case (or group of cases) can be expected to resolve some fundamental problems of the interpretation of local power relationships, and thus provide the tool for a constant return to the theory.

The abstract model proposed is also, by its very nature, a synthetic representation of regional types, which implies a higher plane of conceptual breakdown. A regional system must be read, in fact, a) from the point of view of its *organisation*, and b) from the point of view of its *structure*. From the first point of view, reference is made to the way in which the (social and economic) actors working in the system interactive processes (or networks of interaction), which can be seen in different degrees of autonomy and/or dependence. From the point of view of the underlying structural dimension, it is necessary to refer to the cohesion and/or fragmentation of the system, in other words to the most directly morphological elements of existing spatial systems, which cannot be separated from the less immediately visible functional features.

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46 ENVIRONMENTAL POLICY IN THE SOUTH TRANSDANUBIAN REGION

ISTVÁN FODOR

In my introduction I would like raise a couple of ambiguous issues, mainly about the deficiencies of regional environmental policy.

In my opinion the weakest point of environmental policy in Hungary lies in the regional set-up of institutions.

Is there such a thing as regional environmental policy in Hungary at all?

If there isn't any, then here we are at the end of my paper. But of course, the question is not so simple.

The central government is currently trying to form the main directions of its new environmental policy.

The environmental policy of local governments covers only settlement environmental policy.

The significant areas of environmental protection, however, cannot be covered in either sphere.

- the contaminated surface waters,
- the big polluting industrial companies,
- the elimination of pollution caused by traffic, and so on.

All of these would need well-co-ordinated treatment on a regional level.

How does the situation look, for example in the field of traffic?

A very strong, growing, national tendency can be noticed concerning the pollution of the environment.

Very similar trends appear in the Transdanubian region.

The increasing burdening to the environment throughout a given region can be recognised by:

- the growth of especially polluted air (*Figure 46.1*),
- ineffective waste management.

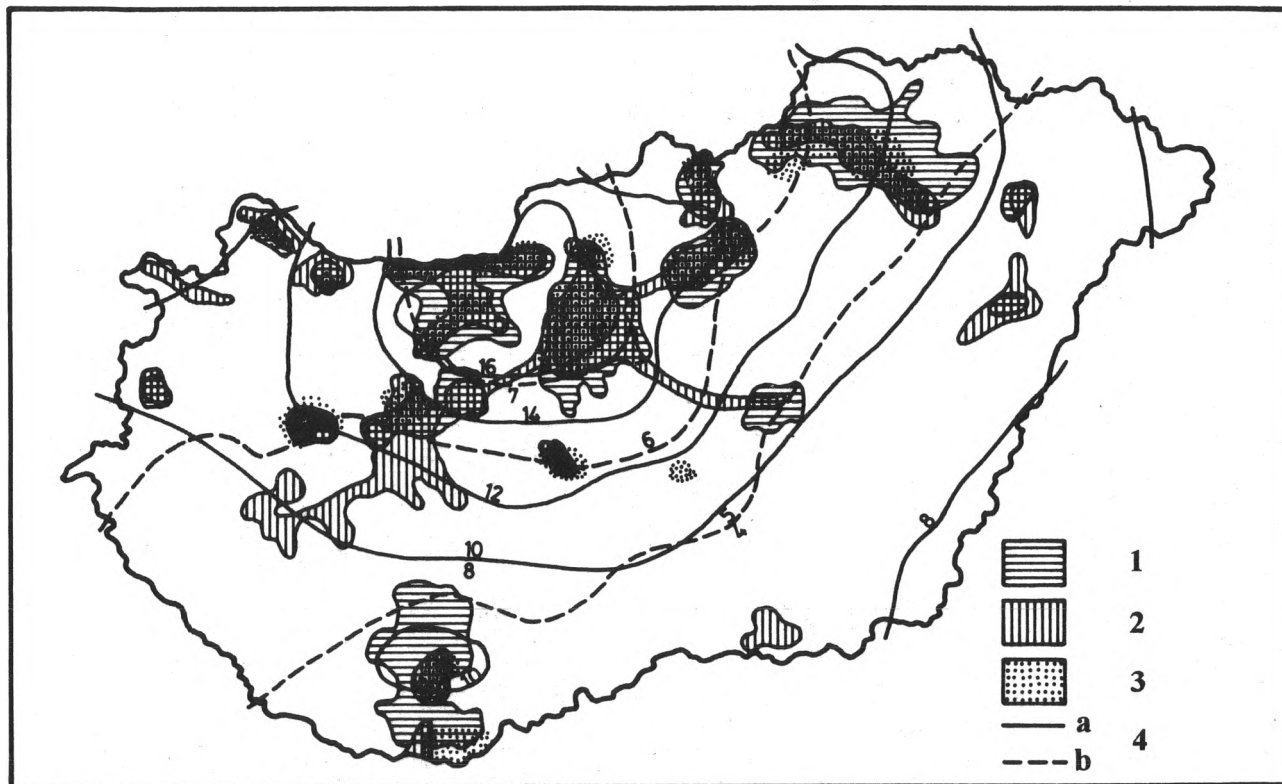
Figure 46.1. shows the two biggest areas within the South Transdanubian region, where air pollution has reached a very critical level, namely:

- 1) Pécs-Komló-Beremend industrial areas,
- 2) The area around Lake Balaton

In the latter the main source of significant pollution is traffic. A more detailed analysis of the region's air quality can be made on the basis of *Figures 46.2a-e*. These figures show the trends characteristic to air quality. The air quality trends of Pécs and Komló in *Figures 46.2a-b* show that as a result of traffic and industrial emissions the area is seriously endangered by the high quantity of SO₂, NO₂ and black carbon in

Figure 46.1

Level of air pollution in Hungary, average of 1987–1990

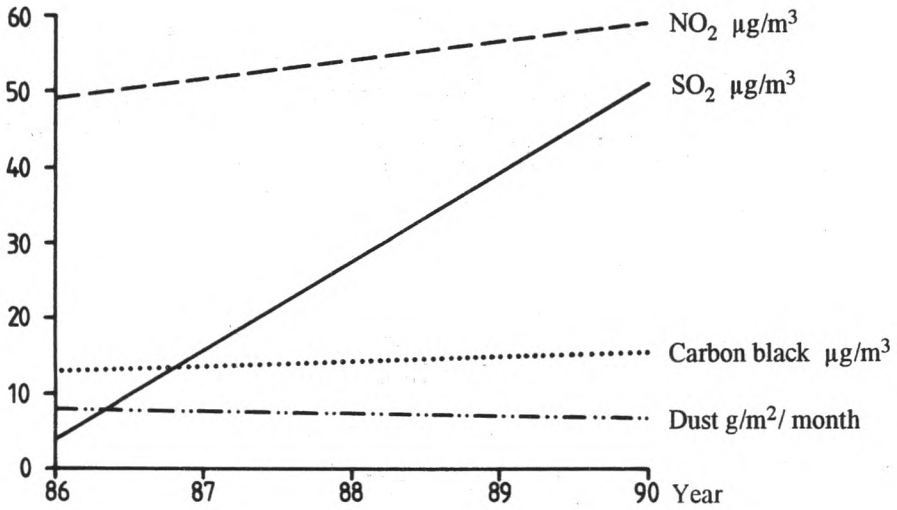


Key: 1=SO₂; 2=NO₂; 3=Regional background pollution; 4a=SO₂ mg/m³; 4b=NO₂ mg/m³.

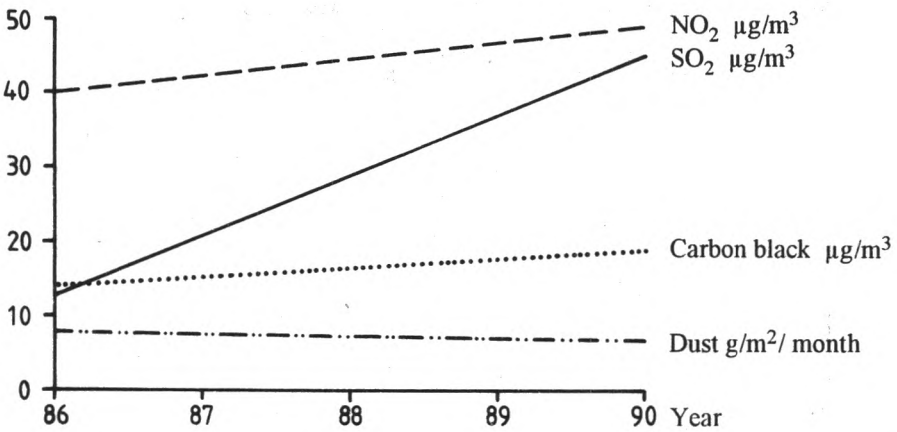
Figure 46.2

Air quality trends, 1986–1990

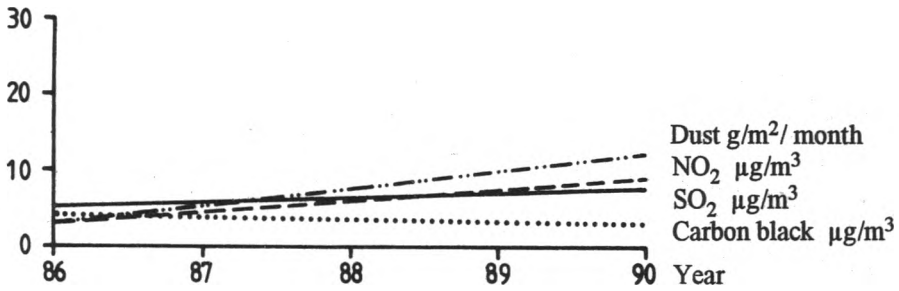
a) Pécs



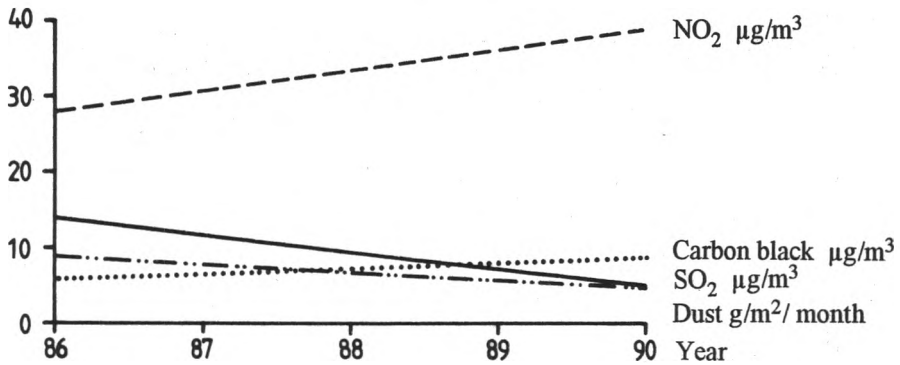
b) Komló



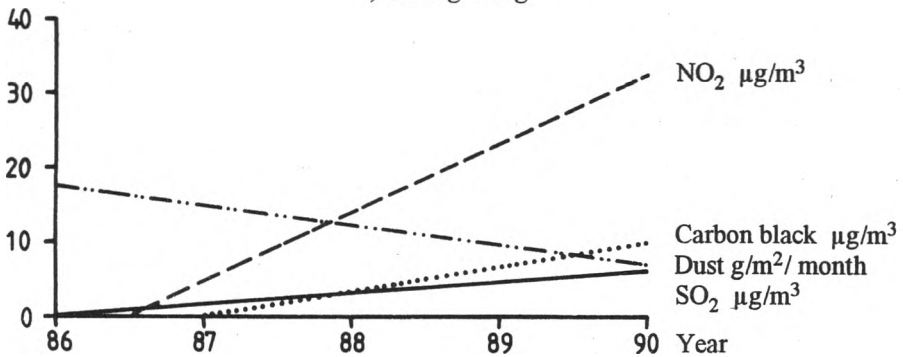
c) Szekszárd



d) Kaposvár



e) Zalaegerszeg



the air. *Figures 46.2a–e*, present the air quality trends of the bigger part of the South Transdanubian region, and show very clearly that the main source of danger is traffic (see trends of NO_2).

What about investments?

Within the framework of the PHARE programme we have surveyed the general public interest in taking part in investments in Hungary. National trends apply to the South Transdanubian region as well. This means that barely 10 per cent of the main polluting industries were responsive to environmental problems. The vast majority of industrial companies did not show any interest at all. The reason for this could be restructuring within the companies, privatisation, etc.

The big problem for the South Transdanubian region is waste management. There is hardly a settlement in this region where waste management is solved. There are not even signs of hope that the situation will improve in the near future.

Effective waste management is situation specific – it requires source separation and can only be achieved within the framework of regional policy. Management of communal (public) waste can be carried out by a joint programme of some settlements in the same micro-region. More and more settlements become interested in the source separation of communal (public) waste. Economic calculations show that source separation in waste collection is not economical unless a whole system of settlements having approximately 150,000–200,000 inhabitants is involved in the programme.

The problem of hazardous waste management, also the cause of increasing tension, can be solved only on a macro-regional level. *Figure 46.3*. shows where hazardous waste management plants (active and planned) are located.

It is quite obvious that waste management in the South Transdanubian region could be dealt with by one regional hazardous waste management plant. Despite interest on the investment, the realisation process has already been dragging on for five years because of the social debate and protest of the inhabitants.

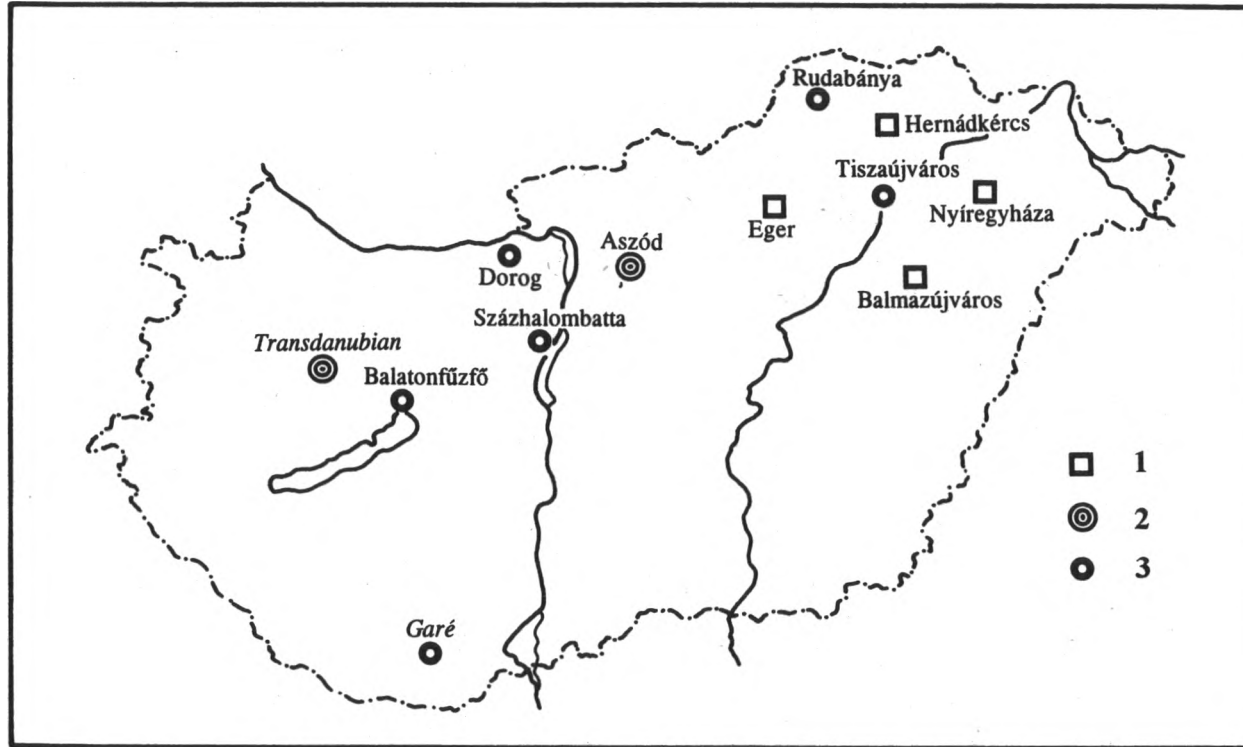
Privatisation is a new environmental problem in the region. Through the privatisation, dissolution or restructuring of bigger companies, some smaller companies appear (as parts of the former bigger one) which may increase uncontrolled pollution of the environment. It is very often impossible to introduce environmentally friendly technologies or investments because of the underdeveloped infrastructure. Existing communication, road-system and transportation problems prevent the region from benefiting from developing programmes.

For instance, the Tannery of Pécs is a very typical case which shows the danger of air pollution emitted by a company, in the process of being restructured. For to five years ago it had a production value of 4 billion Ft. Today it is being restructured and is trying to avoid bankruptcy. Therefore its production has fallen to one third of its previous level. In order to be able to survive, it had to sell property and some technological units as well.

The only way to enforce responsibility for the environment, is to define clearly the legal obligations of ownership and to avoid the legal insecurity of it. The mistakes and deficiencies in the bureaucracy in connection with ownership raise difficulties in defining responsibility.

Figure 46.3

Significant waste management plants



Key: 1=Regional storage place; 2=Dumping; 3=Regional incinerator for industrial waste; *Garé*=planned establishment.

Defining the name and form of the new ownership is most difficult in the case of potential polluting companies. Very frequently it is the case that one half of the company is state owned and the other half is private. In this sort of ownership lies a very significant source of difficulty concerning the endangeredness of environment. Our research work justifies more and more the theory that not only the responsibility for financial decisions and their consequences is relevant, but also the responsibility for environmental consequences. Environmental risks deriving from business uncertainty, are defined and described in a working hypothesis which, of course, needs further investigation.

Even during the socialist regime, when mostly everything was state-owned, it was not easy to fix the responsibility for the damage to the environment. Creating the conditions of free venture capitalism however, can lead to unreasonable and uncontrollable environmental freedom. Dangers lying in the unregulatedness of the freedom of investment can result in unidentifiable, unproveable and practically unobservable damage to the environment.

The basic theory of our research work did not suppose direct (either positive or negative) relationships between privatisation and environmental effects. Nevertheless, the indirect relationships and effects will remain varied and hidden, or hard to identify in many of their aspects. Some of our experiences open up a whole range of problems.

- The factory's (located in the centre of the city) emission has been controllable so far. From now on it will be a lot more difficult to control the emissions of the smaller companies (air polluting materials, contaminated water, waste, noise).
- The emission limit is provided for single plants, economic organisations or firms. In the case of selling or dividing parts of the property, a lot of polluters may ask for an emission limit. Thus the emissions could grow even if the single emitters keep to the emission limit. This, beside the existing environmental problems, leads to the further degradation of environmental quality.

Conclusion

According to the experience, gained in the Transdanubian region we can say that, there is no regional environmental policy in Hungary today. Some basic elements, however, appear quite clearly.

The extraordinary significance of the basic environmental element in regional development conceptions has already been proven.

The realisation of sustainable development, as well as the possibility and starting point of changing unsustainable structures depend on environmental development conceptions. Economic organisation and amongst them especially industrial companies are the main sources of pollution. By nowadays preparing plans has become a lot easier than it was in recent years. During the past economic system when the aim was quantity instead of quality it was impossible to check whether environmentally unfriendly techniques were used. On the other hand only few institutions were enabled to carry out an effective protection of environment.

Environmental protection in the future, however, can hardly be realised without an effective regional environmental policy.

This is very closely related to regional and settlement development and also to strategies of regional economic development.

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