

HUNGARY:

**SOCIETY, STATE, ECONOMY
AND REGIONAL STRUCTURE
IN TRANSITION**



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Edited by
ZOLTÁN HAJDÚ



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CONTENTS

PREFACE / 7

THE MAIN FEATURES AND PROBLEMS OF POLITICAL-ECONOMIC
TRANSITION IN HUNGARY

ILLÉS, Iván / 9

THE HUNGARIAN SOCIETY AT THE START OF ITS TRANSFORMATION
INTO A MARKET ECONOMY

BŐHM, Antal / 25

TRANSFORMATION OF THE CONSTITUTIONAL MODEL

ÁDÁM, Antal / 39

THE CURRENT PROBLEMS OF LOCAL/REGIONAL GOVERNMENT IN
HUNGARY

PÁLNÉ KOVÁCS, Ilona / 55

THE ECONOMIC DILEMMAS OF ECOLOGICAL CRISIS-MANAGEMENT

FODOR, István / 69

RESTRUCTURING OF HUNGARIAN INDUSTRY AND ITS REGIONAL
EFFECTS

BARTKE, István / 79

FORMATION OF THE REGIONAL STRUCTURE OF TRAFFIC AND
COMMUNICATIONS

ERDŐSI, Ferenc / 99

THE HUNGARIAN BANKING SYSTEM IN TRANSITION

LENGYEL, Imre / 117

SYSTEMIC CHANGE IN EDUCATIONAL POLICY

FORRAY, R. Katalin / 139

TRANSFORMATION TENDENCIES OF THE HUNGARIAN SYSTEM OF SETTLEMENTS

TÓTH, József / 155

UNEMPLOYMENT AS A NEW PHENOMENON OF THE TRANSITION

DÖVÉNYI, Zoltán / 185

SUSTAINABLE REGIONAL DEVELOPMENT IN HUNGARY

ENYEDI, György / 209

INNOVATIONS AND REGIONAL POLICY

RECHNITZER, János / 221

REGIONAL DIMENSIONS OF THE HUNGARIAN ECONOMIC TRANSFORMATION

NEMES NAGY, József / 245

ENTREPRENEURSHIP AND REGIONAL POLICY IN HUNGARY

HORVÁTH, Gyula / 263

NEW POSSIBILITIES AND THE CONSTRAINTS OF REGIONAL SCIENCE

LACKÓ, László / 279

NOTE ON CONTRIBUTIONS / 295

PREFACE

Our collection of studies is published for the 50th anniversary of the foundation of Transdanubian Research Institute. However, we are not going to give a summary on the results and failures of the past 50 years. Instead of looking back to the past we are going to analyze the recent changes of the Hungarian society, politics, public administration and regional structures.

In Hungary changes in the economic and political system started and they still take place in a very peculiar situation. Even the sharpest critics of the past era must admit that these changes are originated from 1968, the year of the establishment of market conditions in the socialist economic system. This gave a possibility for the development of new tendencies that were different from the original intentions of the political elite not only in the field of economy, but in private social sphere as well. The first three papers dealing with changes in Hungary's economic, political and constitutional structure (ILLÉS, I., BÖHM, A., ÁDÁM, A.) give a comprehensive analysis on the complex interrelations of the whole transformation process that became more intensive from 1988. During the changes that are taking place the old social, economic, political and constitutional system should be terminated, the country's functional integrity should be preserved and the foundations of a modern civil society and a multiparty parliamentary democracy with the institutional system of market economy should be laid down at the same time.

The trouble is that all these tasks should be carried out simultaneously, for the lack of any components may cause a serious breakdown in social development. For the systemic solution of these problems Hungarian practice relies on the old traditions of the period before 1945 and on the experiences of modern European societies. Papers on "sectoral" problems (PÁLNÉ KOVÁCS, I., FODOR, I., BARTKE, I., ERDŐSI, F., LENGYEL, I., FORRAY, R. K., TÓTH, J., DÖVÉNYI, Z.) give a very detailed analysis on the situation. In most cases each paper's individual attitude to the problem differs from the other's. Thus it is natural that the reader will find differences in their final conclusion as well.

The authors do not deal with all "sectoral" problems. For example there is no paper on agriculture. Agriculture in Hungary is undergoing the most peculiar transition. There are very rapid changes in its "legal background and regulation", property and working conditions are not clear and all these changes take place in a jungle of sharp political and interest conflicts where agricultural farmers cannot decide themselves what is right and what is wrong for them.

Papers analyzing the regional impacts and outcomes of system change and transition (ENYEDI, Gy., RECHNITZER, J., NEMES NAGY, J., HORVÁTH, Gy.) give a very clear and comprehensive analysis on macro-, mezo-, and microregional dimensions. During the process of economic restructuring some regions were devaluated while the quick expansion of the country's relations with Western European countries resulted in a higher appreciation of Western Hungarian towns and regions.

The last paper in this collection (LACKÓ, L.) investigates the possibilities and problems of regional science and gives a summary of cases taken from foreign countries with the definition of the most important tasks for Hungarian researchers.

We hope that our collection will give a clear and detailed analysis on the interrelationship and interdependence of the Hungarian economic, political, institutional system and regional processes. However this analysis cannot give a full and still less a "final" review on all details of the whole situation.

Hajdú, Zoltán
editor

THE MAIN FEATURES AND PROBLEMS OF POLITICAL-ECONOMIC TRANSITION IN HUNGARY

ILLÉS, Iván

Hungarian sportsmen have a time-honoured tradition of scoring high successes in modern pentathlon games. They have won gold medals on half of all competitions (world championships, Olympic Games) since The Second World War. Hungary's present economic situation is now similar to such a pentathlon game but this one would drive all of our champions into despair. Here, instead of subsequent shooting, fencing, riding, swimming and running activities, they should do them all at the same time! There are five great problems that Hungarian society should face simultaneously. Each of them by itself offers a great challenge and there is no possibility for putting any of them aside.

The five problems mentioned are as follows:

1. The first thing is a general and global problem of economic development and modernization. The GDP per capita in Hungary is only one-sixth of the highly developed countries. Productivity, technical standards, the marketing of products, and consequently, living conditions are far behind these countries. This means that modernization, the increase of incomes and putting an end to poverty are the main duties of our economic development. This is not a specific feature of our political-economic transition, these problems should be solved in a long historical process.

2. Secondly, in Hungary as well as in other countries of Eastern Europe modernization and economic growth cannot be achieved by a continuous evolution and by ceaseless adjustments of the old economic structure; this is a special feature of our political-economic transition. The respective structures of the country's production and export – as they have taken shape over the past 40 years – have turned out a failure, and their prospects are reduced to nothing. The country produces a variety of goods that could only be sold on Eastern, first of all on Soviet markets, but the collapse and the fundamental changes of the markets have led to a total failure in selling of these products. We must come out of this deadlock by putting an end to the majority of wasteful activities. This is the precondition of a structural renewal. This should be done by *restructuring and changing our entire foreign trade orientation*.

3. The third – most popular idea of our time – is *the concept of transition from a centrally planned economy into a market economy*.

4. The fourth is the change of property relations and conditions which is to include privatization, the facilitation of foreign capital inflow, changes in internal structures and the management of the remaining nationalized organizations by making proper legal arrangements for a new property system with a constitutional safeguard.

5. Finally, Hungary should carry out political changes by the establishment of democratic institutions and creating preconditions for a democratic institutional system.

These five tasks are strongly interrelated in a complex way. They form a system which makes it impossible to make a real change in one of the components only without making corresponding changes in the others. For example, creating a new advanced market economy is impossible without making changes in political and property relations. At the same time, however, these five tasks should be dealt with and considered separately so that the cause and effect relations might be clearly seen, otherwise the priority system, and hence the entire economic policy would consist merely of inconsistent decisions and improvisations. Difference should also be made from the viewpoint of results so far achieved in this process. As they are taking the form of a system, the bottleneck areas will determine the overall speed of progress.

Disregarding those historical and general duties that Hungarian economy should perform in the interest of the modernization and economic development, and trying to concentrate on the main issues of economic and political transition, the following progress can be reported:

– in general, the institutional preconditions of political change have been created. Obviously, politics cannot be fully separated from its social and economic environment. It has inevitably got some impacts on political decisions. It is also true that a lot of errors, false ideologies and tensions can be identified in the decisions of the political elite. However, it does not contradict to the fact that – if we want to figure out the immeasurable – the progress in changing the political system has an over 90 per cent perfection.

– the second most important change has been made by the introduction of market conditions. This is true even if it is not clearly seen by the public. Political declarations and mass media tend to consider market economy or better to say "social market economy" as something that will be realized only in the distant future. However the rate of progress made in the introduction of market economy in Hungary is 85 per cent now. This is partly due to the economic reforms that started 23 years ago in Hungary. Market conditions

now prevail in the turnover of goods and commodities and on labor market, but they are strongly limited in infrastructural services on capital and money markets. A different problem is that in many respects market works in a deformed way. In most case this is not because of the lack of market institutions and mechanism. It is because of the incomplete functioning of property relations and because of distortions in the economic structure.

In most it is not the market but its actors' behavior and reactions – determined by non-market factors – that are being criticized.

– There are far more things to be done in foreign trade reorientation and economic restructuring. It is not easy to tell how much progress we have done on the way which leads out of the crisis. If it is true that one-third of our production capacities is competitive, one-third is fair and one-third is non-competitive, then – bearing in mind that industrial production in Hungary has been reduced by 40 per cent during the past 3 years – most of the job has been one and the non-competitive capacities have gone away. Unfortunately, the situation is not so fair. Some years ago more than half our export went to Eastern Europe. This rate has decreased to one-fourth by now. The share of the Soviet Union in our export dropped from 35 per cent to 16–17 per cent. This might seem as if we had done more than half the work necessary to the market reorientation, but this view would oversimplify the requirements of restructuring the economy to cope with the changing market. If the Hungarian economy were "on the right way", the growth could compensate the losses and recession. We know quite well that it did not happen so. The preponderance of recession over the Hungarian economy is so heavy that the performance of the small but dynamic sectors cannot compensate the general tendencies of recession, and it is only a smaller part of economy that is undergoing a real development now.

– Finally we have made the smallest progress in the field of ownership. There was a considerable progress in the process of rapid and dynamic growth of new small private enterprises. In the early eighties the share of private sector including private agricultural farms and the "output" of private flats (amortization) accounted for 9 per cent of the total GDP, compared to 23 to 25 per cent at present. Although this sector has undergone a dynamic development because of its initial minor role in economy, it cannot bring about fundamental changes in the ownership system. We can hardly find any comprehensive strategies for restructuring the predominance of national collective property.

When we now begin to examine the most important tasks of the Hungarian economy, we should start out from the bottleneck areas offering the most serious challenge to the Hungarian economy. Later on we can turn

to other areas where more results have been already achieved, nevertheless solving the related problems will not be easier than in the former case. I would like to concentrate exclusively on economic issues disregarding those items that are of a purely political nature. Thus I am going to deal with the problems of privatization, structural changes and introduction of market conditions.

1. Privatization and the reform of the ownership system

The two fundamentals of capitalism are private property and market economy. They cannot be separated but their prioritizing gives rise to many economic debates.

The classical economics of Smith, Ricardo and Marx considers property and capital to be the essences of economy. The neoclassical theory of Walras concentrated on the functioning of market and on conditions of equilibrium on the market. This is also true for the theory of Keynes. These were opposed by Schumpeter who concentrated on the real figure of the entrepreneur instead of the "invisible hand" and considered innovation as the ultimate impetus of economic development.

Western economists of the sixties and seventies pushed the problem of ownership into the background partly for presentational reasons. For the reformers of the communist countries it was easier – but not easy – to fit the idea of market rather than that of private property into the social and political context of that time. Unfortunately, presentational and tactical motivations were followed by errors and self delusions. Among others the main reason of failure of economic reforms in Eastern Europe was the wrong idea of the possibility to introduce market economy without the driving force of private property.

Private property by itself will not suffice to economic development. This was exemplified by Polish agriculture. However, if we are to choose an appropriate keyword for our economic development, we have to vote for the reform of the system of ownership – even if Marxist theories are now not in fashion – because sooner or later it will call forth further reforms in other elements of national economy as well.

Our democratic parties seem to be well aware of this and they raise the issue of ownership reforms in their programs as one of the key problems. It is also evident that this immense privatization process has no historical antecedents. This long process cannot be completed in a few year's time. Another unfavorable factor is that privatization should take place in such an economic environment which is now facing recession and structural crisis.

Though from among the countries of Eastern Europe – with the exclusion of the former German Democratic Republic – privatization process is taking place at the most rapid rate in Hungary, still privatization process is slower than required due to some theoretical and practical problems of government policy. These can be summed up in five points:

a) The leading party of the government coalition, the Hungarian Democratic Forum shows an ambivalent attitude towards privatization. The petty and middle bourgeoisie were considered to form the social basis of this party. However, these groups form only a small fraction of society in the period of transition and consequently they cannot create an effective demand for privatization. For good economic reasons, the government rejected the idea of free privatization based on citizen's coupons (like in Czechoslovakia). On the other hand, the government coalition have had theoretical and political reservations against other forms of privatization. So there were some fears of selling out the national wealth to the foreign capital, but the "spontaneous" forms of domestic privatization were also considered as the ways of preserving the old communist power. These ideas and declarations were reinforced during the election campaign. Actually the economic ministers of the new government have not fully shared the opinion of the party, but at the same time they had to abide by the party's declarations in the election campaign and by the MPs who exercise a strict control over them. Furthermore, the governing party is also afraid of the privatization of mass media sector (publishers, newspapers etc.). In case of their privatization the government would lose its political control over them. These ambivalent political and economic considerations have not made the privatization process easier.

b) In the last period of the Németh cabinet (i.e. the last reform communist government) – after passing the Act on Economic Associations and the act governing the transformation process – we witnessed the time of "spontaneous privatization" which was undoubtedly an accelerated privatization process. This process has also had some negative implications. There were several examples of selling companies at much lower price than they were worth or of selling company units resulting only in evacuated company centers which have remained in national property. This also meant that property was freed from the central regulations, but the related personal powers survived. All these facts underline the necessity of a new, strict central regulation and control but this should not necessarily go together with a new centralization process as has been initiated by the present government.

The transformation of the central institutional system slowed down and delayed the implementation of the most important decisions too. The so-called Small or Pre-privatization Act, aimed at selling the formerly state-owned shops, restaurants, to private holders was already elaborated at the end of the period of the Németh cabinet. While in early 1990 some 50 thousand shops and restaurants had been to be sold, their number dropped to 10 thousands by July 1990, the date of passing the Act.

The control of the whole privatization process by one small and overburdened agency was a complete failure. During one year the State Property Agency could sell less than 1,000 out of a total 10,000 of shops and restaurants placed at its disposal. The centralization of the privatization of big firms was not successful either. During one year, from the top 10 firms involved in the First Privatization Program, none has been sold at the time of writing this paper, while there were several companies outside the central program which were privatized successfully.

-- The government seems to have drawn the lesson from the failure of the centralization of privatization. The function of State Property Agency has been restricted to general regulation, control and representation of national interests and the privatization process has been decentralized.

c) The third problem is connected with reprivatization. There is a need for providing moral justice and compensation for the losers of the communist political system. The coupling of compensation with the acceleration of national property privatization was a fairly fortunate action. If so, what is the problem then? First of all the long political debates over the returning of properties in their physical form to the original proprietors delayed the whole privatization process and ownership reform, and hindered the involvement of foreign capital, thus maintaining a state of uncertainty about property relations. On the other hand, for political reasons, the government and the opposition have overestimated the importance and dimensions of Compensation Act without conducting a preliminary survey over the whole subject. The number of applications for compensation was estimated at 1 to 1,5 millions, but their actual number fell short of the expectations, only an additional political compensation increased the number to the original dimensions.

d) The fourth problem is sort of an asymmetrical phenomenon. While the government was very careful during the privatization of non-agricultural national companies, all the negative impacts of the ownership reform affected the agricultural sector, first of all the agricultural co-operatives. The coalition

with the Smallholders' Party must have played an important role in it. The incomplete information on the real condition, possibilities and problems of agriculture has also contributed to this situation. There was a widely-held erroneous view which deemed the factors of production as being the main problem of production, but ignored the actual market problems. For this reason a general privatization cannot solve all the problems in this sector. Although Hungarian co-operatives have to face a lot of serious problems, they are still the most flexible and vital organizations that have remained from the former institutions of socialism. This means that co-operatives are to play a vital role in the survival of Hungarian villages during the critical period.

e) Finally, the fifth is the problem of institutional investors and institutional capital. If we were to create capital market exclusively through private investors, Hungarian and foreign, then privatization processes would be slow and long-protracted. But this is not the only way of privatization. Up to now few attention has been paid to institutional investors though they are the most dominant elements of capital market in western societies. In the United States the share of institutional investors in the total of security turnover is 70 to 80 per cent. Institutional investors are: pension funds; insurance companies, investment companies, social security funds, local governments, foundations, universities and the like. Most of them are non-profit institutions covering their expenditures from security earnings. It is worth following their example: instead of giving state subsidies, providing these institutions with some capital assets and capital in come could enable them to cover some – increasing – part of their expenditures.

2. Foreign trade reorientation and economic restructuring

The second problem the Hungarian economy is now facing is the total change of economic structure and foreign trade relations. While in the case of privatization and changes in ownership the role to be played by the state is clear – even if the nature of this particular role can be debated for long – but in structural adjustment, foreign trade restructuring it is not clear whether the government should play any kind of role. In the past decades there were only few government programs that were really successful. On the other hand, there are good reasons to worry about whether these fundamental changes could be carried out spontaneously in our run-down economy which has been relying heavily on protection by the state; and now badly needs capital.

An additional problem here is the government's moral responsibility for the majority of companies having suffered a crisis because of the former central government decisions.

To give a correct answer to these questions is very difficult, if not impossible. All that we can do here is to formulate some general ideas based on recent experiences. Some of them may coincide with the economic strategy of the central government – if we can discover any strategy at all – others many not. Six major problems can be identified:

a) The most drastic change of the recent period is the collapse of eastern – mainly the former Soviet – markets. During the years 1990–1991 Hungarian export to Eastern Europe has decreased by 66 per cent which means that only one-third of the exports has remained. Since 750 thousand people were engaged in production for export to the Eastern European countries, some 500 thousand people are likely to lose their job. In addition, in some periods there were great differences between world prices and COMECON prices bringing along more than 20 per cent extra conversion for the central budget of Hungary. With the change-over to USD-based trade account, these extra incomes have disappeared.

These changes were really shocking for the economy of Hungary and the opinions urging on the maintenance of the earlier "market positions" do not emerge by accident. They say: "The former Soviet Union is an enormous market; we have long traditions in trading with it, we should not abandon this market even if they are in trouble for some time. Western companies are doing their best to enter this market, why should we abandon it just now?"

To see the real situation we must consider the following facts. The present financial conditions of the new independent states in the place of the former Soviet Union is very bad. These countries have been involved in large and growing debts. The uncertain political situation also contributes to the countries' inability to get credits from other countries. The region badly needs additional financial sources and foreign currency.

The Soviets knew very well that these countries badly needed their resources and energy, the quantity they sell cannot go under a certain level. At the same time, exports to the former Soviet Union offer jobs to many sectors of industry and agriculture, that is why beyond the guaranteed level of payment these countries are willing to sell goods on credit. That is even more so since Soviet imports from the western countries are also financed by credits offered by Western governments. However, poor countries like Hungary and the other East European countries cannot afford it.

b) Trading with the small countries of Central Europe offers a similar picture, but in fact it largely differs from the former Soviet Union, especially in the case of Czechoslovakia and Poland. Although we have long traditions in trading with these countries, the mutual deliveries have never been so few as they are now. Market economy is more advanced in these two countries than in the CIS, thus here we can hope to encounter real market conditions. On the other hand, there is a large number of negative factors in trading. The most important of them include: hard currency shortages, and the differences in the level of subsidization of prices. This makes some countries protect their domestic market. What makes us worry is that while these countries are doing their best to open their custom barriers to western countries by concluding agreements with them on free trading, results concerning the formation of a mutual free trading zone have been achieved only in most recent time.

While the "investments" in keeping trading relations with Soviet markets seem to bring rather uncertain results, the maintenance of I market relations with these countries is worthy of taking some risks.

c) It is evident now that the main element of reorientation should be the intensification of western trading relations because no other alternative is left to us. The process of running into debts in the 1970's has forced Hungary to do it earlier than its neighbors. Paradoxically, debts had some positive effects too: for example, from among the countries of Eastern Europe, the per capita value of exports to the OECD-countries is by far the highest in Hungary. This offers a good starting position to the country, although – in examining these international relations – serious consideration should be given to other factors as well:

At first we should see that while Hungarian economy seems to be more competitive than any other countries of Eastern Europe, it cannot compete with the western economies. We have already seen some warning negative examples: the industry of the former German Democratic Republic has collapsed not only for losing its East European markets but rather for losing its national market as a consequence of letting western competitors enter the domestic market. The success the Polish industry scored in its exports in 1990 was followed by recession in 1991 because – as a consequence of a strict monetary exchange policy the Zloty increased in value – foreign competitors entered the market through import, and the Polish industry lost its home market. We should protect our economy not only by means of customs and exchange rates but also by the quoting system which was several times used against us. Hungary has a far more liberal import policy than our western partners.

Formed in 1990, the Hungarian government had a lot of worries about foreign private capital while it attached great hopes and expectations to support by western governments. These hopes and considerations were not verified by reality. The support by western governments was far below expectations and the political declarations were often confronted with protectionist and narrow-minded practices. On the other hand, private capital and private investors were very active in some cases; their activity went beyond expectations.

Mention should be made here of the theories about the "cheap selling" of the country which refer to selling out the national capital to foreign investors at a low price. Although this can be a real danger, but there is a more dangerous thing we have been doing for a long time. It is the cheap selling of Hungarian products by Hungarian salesmen under the pressure of the country's shortage in hard currency. The inclination of some salesmen to be corrupt, the occasional nature of business, the large number of Western middlemen, and the total indifference of buyers to keeping Hungarian economy in fair condition were the reasons of selling Hungarian products at prices much lower than they worth. I daresay this has resulted in a real "exploitation" of the country. If foreign direct investment capital and interest can cease only some of these factors, I think no matter the price paid for assets, we can make profit out of this kind of business. However, this does not contradict our intentions of trying to sell our national capital at the most reasonable price.

And finally we should do our best for building up manifold economic relations. The share of the German-speaking countries such as Germany, Austria and Switzerland will be over 40 per cent in our total foreign trade in 1991. Except for the war period, this is higher than it has ever been before. It also higher than the share of the Soviet Union was. Paradoxically, this situation also leads to a dependency, in fact, Hungary is even more dependent now than used to be in the Soviet-bloc period, when it depended on the Soviet imports which consisted mostly of energy sources and raw materials that were available in any part of the world provided we could pay for them. However, the majority of German import consists of machine parts, components, intermediates or such kind of machines that require special appliances and materials. Despite of the European Community's standardization efforts the replacement of many of these components would be impossible. The abruptness of these imports may give rise to the danger of an overall dysfunctioning of Hungarian economy. Fortunately we do not have to worry about it for now, but a country that wants to be independent should not get from one dependency into another.

d) The collapse of COMECON gave rise to a state of crisis in many specialized sectors of economy. On the other hand, there were some sectors where the decline of this type of trade could turn – to some degree – to the advantage of mainly those industrial sectors that were neglected or could not compete with the low prices of their competitors due to the distorted price system of COMECON. These sectors include agricultural engineering, energetic engineering, the production of railway and other vehicles, radio equipment, some military industries, etc. In the new situation we should reconsider their development.

e) The system of central planning that deformed the size distribution structure of companies – with the low number of small and medium size companies – did not facilitate the internal division of labor and integration. This was manifested in the absence of co-operation in the production of different machine parts. That is why the hard currency import of machine parts is too high – almost one billion dollars – while the export of machine parts that requires prompt delivery and good co-operation amounts to only 200 to 300 million dollars. I think this trend could be changed in the easiest way without getting into the trap of autarky. At first small and medium size enterprises could serve as "satellite firms" with accurate and proper service of machine parts for big firms, while in the field of export the advantages of having cheap but skilled labor force shorten the time of economic transition and we could also make use of our near-by situation to the Central European region.

f) Finally, as a consequence of structural and market changes we must face different problems in agriculture.

The problem of Hungarian agriculture originates in marketing rather than production-related problems. For a long time agriculture was considered as one of the leading sectors of the Hungarian economy. At the same time this was the period when the costs of production were rather high, requiring state subsidies. Lately, this sector has quite often suffered from assaults, although owing to objective factors, the relative costs including the peasants' relative incomes went down to a minimal level. In parallel with a decrease in state subsidies, marketing the agricultural product has also remained a problem. Nowadays it is quite clear that it is impossible to sell low quality commercial products, but some illusions are still lingering. Structural changes evidently have presented some new possibilities to agriculture but it seems unavoidable to cut down the export and production of agricultural goods. East European markets cannot buy as many of our products as in the earlier times. The

opening of West European markets to our agricultural products is one of the greatest problem of our joining process to the European Community and perhaps this will be the greatest in the future too. However, we should start restructuring agriculture as soon as possible.

3. Introduction of market economy

I think the greatest progress we have made is in connection with creating the preconditions for market economy. Since 1968, we have gained an experience of 23 years, nevertheless the progress we have made was full of roundabouts, standstills and retreats. The errors and mistakes gave us some knowledge of how to avoid wrong decisions and dead ends in creating a market economy.

– The idea of the coexistence of planning and market has failed. It was marked by the term of "market regulation" that means creating economic regulations – prices, wages, incomes – that fit into a planned or fixed income system instead of genuine market incentives. This failure is the consequence of disregarding market mechanism with its self-regulating and income-production balancing functions. If the government is going to influence some economic areas, it is better to do it in a direct way instead of indirect market manipulations.

While the central directives of former governments have been abolished, the communist party's role and hierarchical position in the economy has remained the same with its regional and local party institutions exercising a direct control over the whole economic process, which in most cases does not lead towards market orientation.

The over-centralization of economy did not leave much for national competition and in most cases it gave no chances for international competition.

And last but not least the predominance of state property has remained on the same level excluding the motivation of capital, individual enterprise, risks and profit, that is to say, the long-term capital accumulation incentive.

What are the results of the 23 years of reform then? It extended the consumers' influence on the structure of production by cutting down production when no demand is made on products. The greatest result of the reform is the emergence of a group of managers who – disregarding the errors they have made – are capable of making independent decisions and keeping up with market tendencies by thinking in economic and financial terms. Comparing all this with our neighbors' situation we can say: this was not a small job.

However, there still is a lot of things to do in forming a market economy.

a) Market conditions determine the selling and purchasing of goods, but reducing the role of monopolies is still an important target. There is a lot of products in Hungary which are manufactured by one or two manufacturers only (this is true for nearly all investment goods). There is only a limited possibility for increasing the number of manufacturers, but import liberalization may serve as a kind of solution for this problem.

b) The situation is more complicated and uncertain in the field of educational, health, social, cultural and scientific services.

On the one hand, it is not clear which services should be based on market principles and which services should be regarded as public services. The long-lasting corruptions and immoral situations have resulted in an almost total crisis of the national health-care system.

On the other hand, a lot of organizations participating in "competition" have different regulations and settings. The word "competition" here does not mean a real competition. A great number of semi-legal or illegal sectors can avoid taxation which means that they have very different possibilities for venturing. On the other hand, fiscal restrictions force a lot of national institutions to work on the basis of "venture" which results in sort of "Wild West" situations in the field of scientific and cultural business services. It is explained by the fact that any kind of state funding would impose important priorities on them, thus putting obstacles in the way of real business ventures.

c) Labor "market" is not restricted by administrative regulations. On the contrary, the employer's freedom and legal changes connected with the defenselessness of employ are greater here than in many of the developed countries. The underdevelopment of market is due to the small spatial mobility of labor force, to the overspecialization of the educational system and to the incompleteness of the information supply system, that is due to the underdevelopment of infrastructure (housing, telecommunication, education).

d) And finally, the money and capital market is very primitive and restricted within the country.

The greater part of capital does not participate in business and has no market value. Book value gives only a small information on real market value. Thus the risk of making great miscalculations in auditing and capital assessment is rather great and its results can be accepted only with strong reservations. That is why the selling of national capital and the process of

privatization are exposed to mistrust and suspicion – with or without good reason.

Stock exchange system is in its initial period yet, only a very small number of stocks is involved in business transactions, and the majority of investors are foreigners.

Money market operation is restricted by the lack of convertibility, the banking system is strongly monopolized, the greater part of savings and credits is allocated for the State' Treasury.

At the same time in the progress in market conditions does not depend any more on institutional or legal measures. The preconditions for development an opening should be created through an accelerated privatization and by establishing the necessary infrastructure.

* * *

The Hungarian economy was facing the difficulties of economic transition and reorientation for more than 10 years. Real incomes were decreasing for more than 10 years. From among the countries of Eastern Europe the rate of foreign debt per capita was the highest in Hungary. It is not accidental that during the election campaign all the political parties were doing their best to present the most pessimistic image of the heritage of the past political system and of the inherited economic situation. At the same time other countries of East Central Europe cherished more illusions about their economic situation and development. It is because they did not have such a long stagnation and inflation period as Hungary had and/or they had smaller debts than Hungary.

The last three years have brought along greater collapse in the Eastern European markets and smaller economic support from western governments than expected. On the basis of pessimistic forecasts and shocking elements, one could expect a total economic breakdown of Hungary. Fortunately, this did not happen so. Although the Hungarian economy is in deep recession, the dimensions of the crisis are smaller and the balance of economy is stronger in Hungary than in any other country of East Central Europe.

These are not only the results of the new government. The efforts made in the past 23 years, despite all the errors and mistakes, have also contributed to positive results made in attitudes, in the system of economic relations, etc. Paradoxically, the heavy debts could, in a way, also bring some positive results. This can be partly attributed to the installation of western machines and technology which reached its highest rate in Hungary among the Eastern European countries, resulting in a smaller relative use of material and energy. The rate of energy-intensity of production is relatively low in comparison to our neighbors, but it is high in absolute sense.

– On the other hand, foreign debts have forced us to hardcurrency export since the late seventies.

Although this phenomenon had some harmful side-effects in general, it was very useful because compared to its size and GDP Hungary has the highest level of export to OECD countries among the countries of Eastern Europe. The high rate of export to developed countries during the last four years has resulted in a lower debt service rate (the rate of interests and loans compared to export) going down from 70–75 per cent to 30–35 per cent. This level is already acceptable by international standards. As has been proved, import is ultimately determined by the export rather than by debt, because from among the countries of Eastern Europe, most of the goods are imported by Hungary even if it has the greatest debt-rate per capita.

These facts can also prove that the process of economic development is quite long: today's success were grounded in the distant past, the serious problems of the present will persist for a long time.

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THE HUNGARIAN SOCIETY AT THE START OF ITS TRANSFORMATION INTO A MARKET ECONOMY

BŐHM, Antal

From 1989 to 1991 were the years when the East European socialist societies collapsed and systemic change started. There were, of course, several factors that converged to bring about the events of these two years. One of them was, first of all, the radical transformation of the political institutional structure – the actual systemic change – in which the monolithic political structure of the one-party system was replaced by the pluralistic parliamentary system as a result of the free parliamentary and local governmental elections. Another important factor was the transformation of the economic structure, and the fundamental requirement of economic modernization, that the collapsing regime had announced some two decades before, but was not able to realize due to the inconsistencies in the reform concept, as well as the breakdown of the state property system, i.e. privatization that reinstated private property after the long period of discrimination. As a matter of fact, it is the issue of *developing the middle class, a bourgeois civilization* that is found in the background of the transformation process. This is also the key problem of modernization in the economy and democratization in political life.

Hungary is now facing the third challenge or trying the third go for the development of the bourgeois civilization in the course of its history. The first opportunity came in the second half of the last century, when this development went hand in hand with industrialization, urbanization – an accelerated progress which remained unfinished. The second attempt was made after World War II. but this also ended in a failure, i.e. the development of the bourgeois civilization got stuck at a level that was half feudal, half capitalistic, but served as an excellent basis for the socioeconomic attitude of "socialism". This explains why the development of the capitalistic/bourgeois socioeconomic structure can be considered as an unsolved problem when the time came for a change in regime.

In the transformation of the regime, the above processes occur in a concentrated form, offering an exciting area of research for social scientists. They can study the development of the bourgeois civilization and modern economy "*in statu nascendi*" and this is an extremely exciting, but also very trying task with a lot of hidden difficulties. New developments can only be

interpreted with new notions and terms, but their introduction means much more than a simple adoption of methods and patterns developed by researchers in modern welfare societies. Another difficulty is the quick rate of the changes which makes empirical research practically impossible. All we can undertake is to identify and describe the main trends on the basis of the actual changes. It is clear that a comprehensive analysis of these few years heavily loaded with events cannot be achieved for quite a long time to come. There are, however, some recently published papers that have attempted to describe mainly the political aspects of the processes (LENGYEL, L. 1991, KÉRI, L. 1991, BIHARI, M. 1991).

1. On the general condition of the Hungarian society

The last census in 1990 registered 10,375,000 inhabitants in Hungary. This is 3.1% less than in 1980. It is interesting to note this change in the population, together with the rate of actual growth in the last decades:

Table 1
Changes in the number of population
(1930–1990)

Year	The number of population (1000 people)	The actual growth (%)
1930	8,685	8.7
1941	9,316	7.3
1949	9,205	-1.2
1960	9,961	8.2
1970	10,322	3.6
1980	10,709	3,8
1990	10,375	– 3.1

Source: Preliminary data of the 1990 census.

It is quite obvious that in the more than five decades, there were two periods, one between 1941–1949 and the other after 1980 when the number of population decreased. The first instance can certainly be attributed to the war, but the second refers to an aging society, struggling with a crisis. Since the 1960s, there have been serious debates on the expected trends in population growth because unfavorable trends – the consequences of low natural growth, aging, and relatively high mortality rate – had an increasing

impact on society. The debates are still going on and unhealthy ways of life, poor health services, certain mental and other problems (e.g. young couples do not want to have babies, the number of abortions is too high) have been brought up as the main factors. It is true that for decades Hungary has been at the top of international statistics on alcoholism, smoking, suicide, neurosis, complemented with mental hygienic problems and a way of life full of conflicts in several social groups (LOSONCZI, Á. 1989).

Statistics of the last decade clearly show the tendency of aging:

Table 2

The distribution of the Hungarian population by age groups (%)

Age groups	1960	1970	1980
0 - 14	25.4	21.1	21.9
15 - 39	36.8	32.0	35.7
40 - 59	24.0	24.8	25.3
60 - x	13.8	12.1	12.1
Totals	100.0	100.0	100.0

Source: 1980 census. Demographic data.

It is a strange trend within the process of aging that the mortality rate is quite high and life expectancy is not more than 65 years for men, and 74 years for women, which is significantly shorter than the West European level. These statistical data refer to a tired society struggling with various diseases.

The above considerations can be interpreted more easily if the following data on schooling are also taken into consideration.

Table 3
Schooling in Hungary

Year	People with unfinished secondary education (%)	People with college/ university degree (%)
1960	5.3	2.0
1970	14.4	3.2
1980	24.2	5.1

Source: 1980 census.

In Hungary the eight- grade primary school has been compulsory since the 1950s, and the number of people leaving high school or with university/college degrees has undoubtedly increased. In our days, some eighty per cent of young people finish the secondary school and a quarter of them continue their studies at universities or colleges. Compared to statistics of the past, these figures represent a significant step forward, yet Hungary is still lagging behind the developed countries. This can be seen as a symbol of the Hungarian situation, namely, that the Hungarian society is at the periphery of the European societies, just like the East European societies in general; within its own region, however, Hungary is among the leading, most developed countries. It is this particularity that may be the cause of ambivalence in the opinion on the country. This ambivalence can explain why Hungary was considered the country of "goulash communism" as far as its economy was concerned and why its political system was described as "the happiest barracks in the camp of socialism". This helps us understand, at the same time, why the change of the regime, the breakdown of the party-state could take place in such an exemplary peaceful way (A. GERGELY, A. 1991).

After the disintegration of the Austro-Hungarian Monarchy and the Trianon peace treaty, Hungary became a rather compact *nation state*. The loss of some of its regions also meant the loss of most of its ethnic minorities. In spite of this, there are still some ethnic minority groups left in the country. The largest such groups (some 340–350,000 in number) is that of the Gypsies; the number of Germans is 175,000, of Slovaks 80,000, and there are some 50,000 southern Slavs (Croatsians, Serbs and Slovenians), as well as 15,000 Rumanians (KOC SIS, K. –KOVÁCS, Z. 1991). It must be noted that the above figures are estimates because in this East European region, filled with various nationalities and minorities, no reliable statistical data are available. In addition to that, the issue of minorities has often involved

prejudices, deep conflicts, occasionally nationalist reactions, and frequent discriminations and it is still a potential source of conflicts in East Europe. This was the case even in the period when speaking about ethnic minorities was a taboo and covered with the ideology of internationalism. This attitude could, of course, not ease the tension, rather prolonged the delicate status of ethnic groups in the region. It is the consequence of this situation that at present we have no proper registrations statistics have often been falsified, data based on ethnic status are in contradiction with those based on mother tongue surveys, etc.

Of all the ethnic problems, it is mainly the Gypsy minority that causes serious tensions. The living conditions of this ethnic group are far worse than the average, they have less schooling or training than the population average, consequently they suffer much more from the processes related to the economic crisis, like recession, and increasing unemployment. Their traditional way of life and system of values also impede the solution of conflicts. They are mostly second class citizens within the society. The other ethnic groups do not raise similar problems.

2. The disintegration of the "homogeneous" society

One major goal of the socialist system was the realization of equality and homogeneous social relations. In consequence, the structural ideal of the "socialist" society – in terms of this ideology – contained three components: the working class, the peasantry and the intellectuals. Within this "trinity", the decisive factor was the working class, while the other two, the so-called allies were in reality subordinated to it. According to the ideology of equalization it was the mission of the working class to eliminate social differences, and create a classless society. In reality, all that happened, was that citizens were turned into workers, i.e. *the vast majority of the population became wage- earners or state employees*. In the background of the process, there was the paternalistic state, that made every effort to nationalize everything and restrict every form of private property. One favorite idea of the system was full employment, that was supposed to prove the system's superiority. (It is typical of those days that in 1986 one could still read sentences like the following in scientific papers: "The lasting presence of full employment, which at the 'start' guaranteed the success of the short-term economic policy, has become a socio-political achievement worthy of recognition") (HÉTHY, L. 1986).

The process reached its climax in 1980 when the number of active workers/employees exceeded 5 million. For comparison: this figure was 4.2

million in 1960 and 4.9 million in 1970. Most of them (1.3 million) were employed in industry; the vast majority (3.5 million people) were manual workers. The number of people employed in agriculture was a little more than 500,000. The number of white collar workers was 1.5 million, but only 400,000 of them were real intellectuals (rated as such by schooling and positions held).

Another specific feature of the structure of the Hungarian society was the relatively high number of *commuting workers* – in 1980, their proportion was approximately one-third of all employees. The appearance of this marked group was the result of the intensive industrialization that was enforced in the 1950s, and the "collectivization" of agriculture in the 1960s. Both industrialization and the enforced establishment of co-operatives made a lot of people leave the agriculture and move away from the rural areas. As a result, hundreds of thousands of agricultural workers and peasants gave up agricultural activities and became industrial workers. This meant safe jobs for them, some kind of stability in their everyday life in spite of the hardships of commuting. Commuters chose to keep their homes in the rural areas and travel daily to the industrial work in towns. For them, industrial wages were well complemented by the agricultural activity that they continued around the house, by working a considerable number of extra hours, that was in reality self-exploitation, but which ensured relatively good living standards. Other commuters lived at a longer distance from the industrial centers, mining areas, therefore they had to stay at workers' hostels or rented rooms during the week. They could go home only on weekends or even less frequently, and sooner or later their ties with their families loosened up, and they fell victim to deviant forms of behavior, like alcoholism. (Commuters deserve particular attention because they seem to suffer most from the consequences of transition, the transformation of the economy, the present recession and crisis. They are primarily the ones threatened by increasing unemployment).

The trinity of workers–peasants–intellectuals did not represent, of course, the total structure of the Hungarian society, because some *small-scale producers* the so-called self-employed people have survived and even in their outcast situation have preserved the values related to private production and private property. In the darker years of socialism, their numbers were relatively low, hardly as much as 3% of all active workers, but in the course of the reform process this social group gained more and more importance. They served as a basis for the process of privatization in the new regime, which meant a kind of promotion from the previously discriminated status of private producers to businessmen, which was at the top of the new system of values in the new democracy.

Besides the private producers, the socialist society had another very characteristic social group: *those who belonged to the "nomenclature"*, i.e. the party elite, that enjoyed various privileges in all fields of life (GAZSÓ, F. 1991). This group was characterized not only by its privileged position, but also by the fact that all information, scientific research related to it was a kind of taboo or was refused permission for publication (SZELÉNYI, I. – KONRÁD, Gy. 1989).

In conclusion, it can be stated that – in spite of all its egalitarian ideology – the supposedly homogeneous socialist society remained a rather *divided society* (KOLOSI, T. 1987), only the study or description of its heterogeneity was made rather difficult, becoming a real taboo at times, with some exceptions like the findings of research into inequalities. (It was typical of this society that research related to poverty was forbidden in the 1970s and the sociologist conducting the project was forced to emigrate, while in the 1980s, studies of the social groups suffering multiple disadvantages became legal and were, to a certain extent, inspired by the official leadership).

In spite of the enforced ideology, one main characteristic feature of the Hungarian society was backwardness in the development of a bourgeois society, and the interruption of such historical processes is the reason why a *well-structured civilian society* that is sensitive to the values of modernization and active in the projects aimed to develop the society *could not develop here*. The lack of a civilian society was felt not only at the macro level, but also at the local, or micro level of the society.

Issues related to the local society were considered secondary in the highly centralized system, that focused only on the macro-level social processes. The smaller local units of the society – i.e. the societies of the various settlements – had no other function but to execute the directives issued at the top of the hierarchy. Only the central power had the right to make decisions on either distribution, values, or changes in the ways of living. This is the reason why the civil organizations, unions, groups supposed to express local interest, lost importance to the centrally defined and demonstrated social values.

The central power developed the practice of redistribution, i.e. it took away the values that were produced and distributed them at its own discretion. In this system, the smaller settlements were at a disadvantage compared to the larger ones. The official values included categories like "big", "urban", "industrial", "worker" and others, that defined the framework of evaluation. A village, especially if it had only a small number of inhabitants, was small, had an agrarian character, was inhabited by

peasants, consequently it had a most unfavorable position within the redistribution system.

One basic principle of this ideology was the elimination of differences between urban and rural areas, which, to many people meant the elimination of villages – either by turning them into towns or declaring them non-viable. In the mid-1970s, one could read even in university textbooks that settlements with less than 2,400 inhabitants were not fit to live, which, of course, entailed very serious consequences. The most dramatic consequence was the merger of smaller settlements by means of coercion, with complete disregard for local interests.

The above-described heterogeneity of the Hungarian society was made even worse by the hierarchic classification of the settlements. On the one hand, there were the privileged county seats and the "large towns" developed under the influence of ideological considerations and, on the other hand, there were small villages with their miserable existence, often in agony for the lack of any support. The population's way and quality of life depended mainly on this hierarchy of settlements. People living in villages were often forced to become self-sufficient, and compensate for the lack of support with more labor, and financial input.

In summary, we can say that the socialist society was – in spite of the official declarations – a heterogeneous, hierarchic society in which the decisive factors were the place of residence, origin and schooling or, to put it in another way, the inequality of chances was both maintained and reproduced.

3. The metamorphosis of the social structure – or the consequences of the change of regime

The regime was changed in 1989, but from the early 1980s on, certain social changes were perceptible in Hungary. It was mainly at the local level that we could witness the emergence of efforts to organize a civilian society, local movements and communities. These efforts often took the form of environmental protection or civil disobedience and, since they expressed local interests, they had no difficulty gaining the support of local communities. Public life became more active in the mid 1980s with more and more civilian movements becoming legalized.

These local movements were undoubtedly enhanced by the more and more sclerotic reactions of the party-state leaders and the increasing activity of the reformists and opposition within the party state. The changes within the

leadership obviously coincided with the demand for changes expressed at the local level, and the changes began to take on a stronger political character.

This process reached its climax in 1989 when, besides the various civil organizations, new political parties began to appear, for the first time after four decades, and expressed the need for a pluralist society. The vehemence of the changes is best illustrated by the high number of newly established parties (83 in all) that were registered before the general elections in spring, 1990 (KISS, J. 1991).

The wind of change rapidly swept over East Europe: the 'Velvet Revolution' won in Czechoslovakia, the Iron Curtain was pulled down in weeks, the wall in Berlin was demolished in days; soon came the revolution in Rumania, followed by the transformation of the Bulgarian society, and, on top of all, the collapse of the Soviet Union and Yugoslavia. These processes had an accelerating effect on changes in Hungary and made them irreversible.

The change of regime was characterized by two factors in Hungary: on the one hand, it took place very quickly, considering that changes in 1989 were legitimated by the general and local elections, and, on the other, it was very peaceful, which proves the consensus of all groups and layers of the society. The changes were not only fast but spectacular as well, even though it became obvious as early as 1990 that the transformation of the economic system will be significantly slower and more painful, demanding great sacrifices from the society. One reason is the country's indebtedness, and the other is the people themselves who had no opportunity to have and do businesses of their own and get experience with the market. As a result, the economic consequences of the transformation like recession, unemployment, decline in living standards and the increasing social differences have either shocked or frustrated certain groups of the Hungarian society.

The economic changes have, of course, accelerated changes in the social structure. The following important changes can be registered at present as compared to the old structure:

The "*working class*" got not only disintegrated, but was turned from the ruling class into a mass of unemployed people. This class was primarily frustrated by the fact that the various political parties that came into being during the transformation abandoned it, while the historic Social Democratic Party could not even get a seat in parliament. In this situation, the working class, taking the blame for the mistakes of the previous regime, was pushed to the periphery of the society. The economic changes were even more unfavorable for the workers, because the first sectors or large industries to go bankrupt were those that employed large masses of the regime's favorite working class (metallurgy, mining), and a high number became unemployed.

This is very hard to digest psychologically, not speaking of the consequences for the individuals and their families. The majority of the more than half million unemployed are manual workers, who used to belong to the privileged class of society, at the top of the list of values. This kind of working class can hardly be expected to turn into businessmen, since they have neither the capital, nor the skills required. So far they have lived under the protection of the paternalistic state even if the protection could only provide them with modest living standards. In their experience, the new situation means abandonment, the loss of stability, hopelessness. In their present situation, they have no hope of getting any representation for their interests, because the political parties are deeply involved in their political struggles, and the old trade unions are also concerned with their own survival. The so-called "ruling class" of the good old days has, by now, become forgotten, unnecessary; this is their situation at the dawn of the market economy, and their future does not look any brighter either.

The situation of the *peasantry* also changed in a contradictory way. The land reform of 1945 made hundreds of thousands of peasants land-owners, but shortly after that came two waves of forced collectivization, first in the 1950s, and later in the 1960s. The number of peasants cultivating their own land was reduced to a minimum, since only 3% of all lands was left as the property of the individual farmers. In the late 1960s, the so-called "household plots" also emerged that worked parallel with the co-operatives, but were more efficient and the incomes from them contributed to the development of "goulash socialism". In the meantime there was a significant decrease in the number of co-operative members as well as in the number of people involved in agricultural production.

At the change of regime, several parties included the restitution of landed property in their programs, and this intention was legitimated in the so-called Compensation Act. At the same time, however, agriculture was also hit by recession, the vast majority of the co-operatives have gone bankrupt and have no hope of recovery. The members of the co-operatives can, of course, reclaim their land and decide whether to leave the co-operative and become independent farmers or join a new, this time real, co-operative. It is generally thought that the Hungarian peasantry will choose to live as farmers; there are, however, opinions which say that this is not a realistic choice considering that the pre-conditions of individual farming (like machines, acceptable credit conditions, safe market for the products) cannot be guaranteed. Property relations have not been clarified properly, the compensation procedure is lengthy, and may take years. In these conditions, people feel uncertain about the future. What can be expected in all probability is *'the strong polarization*

of the peasant society” and besides, or rather instead of, a strong farming system we may witness a concentration of landed property and the reappearance of the landless, poverty-stricken stratum. For the peasants, it is a question of life and death to decide whether they can become farmers or have to sell their land and work as farmhands. The years to come will certainly bring some kind of solution, including increased unemployment.

The *intellectuals* assumed the leadership in the change of regime, the breakdown of the party-state, and the development of the new, democratic structure. In 1989–90, the processes were mainly organized and led by the intellectuals. Some had started the movements of the opposition before the transformation, while others initiated reforms and the breakdown of the state party within the party. The opportunity to change things carried away even those intellectuals who had not been interested in politics before, and concentrated all their efforts on their professional activities. When the time came to change the regime, a lot of medical doctors, veterinarians, teachers and lawyers – who had earlier been inactive politically – accepted various political tasks and functions. The change was the most striking in the country, where professional people began to realize that their activities could really contribute to the development of political life, elections were really democratic with a large number of parties competing in the campaign.

However, this euphoria did not last long. After the parliamentary elections, it turned out very quickly that the economic difficulties were a lot more serious than supposed, and that real changes would require great sacrifices. Intellectuals got disillusioned as quickly as they had enthused. The intelligentsia that could be firmly united to take a stand against the old regime now broke into fractions and got involved in hopeless party struggles. Others decided to give up politics and turned to the privacy of their professional life again. In other words, the intelligentsia became divided into two groups: one taking an active role in the political parties, with an interest in the struggle, and the other that turned away from politics and remained simply professionals. There are signs to indicate that this second, disillusioned group is getting significantly larger than before. It is a dangerous trend, because the participation of the intellectuals in the political struggles is very important, because they could influence the culture of political life and could provide models or values to be used in the solution of political conflicts.

The key issue related to intellectuals in Hungary is whether they can be transformed into the middle class and will be able to take a leading part in the development of the civil society or not. If the answer is yes, the question remains, what kind of middle class values are they going to adopt and whether they will be able to catch up with the modern, or post-industrial level

of the highly developed societies, or will they choose to follow the model of the Hungarian middle class in the 1920s and 1930s that we can hardly remember today. Another question is whether this middle class can get support from a new type of middle class created by self-employed people and businessmen, which could play a decisive role in the establishment of the market economy and the introduction of new, modern middle-class values.

However, it is quite obvious that the values, mentality or skills of the so-called "Hungarian entrepreneurs" are very far from those of real businessmen. If it is true that the present economy is only a quasi market economy, similarly, we can say that the Hungarian businessman constitutes only a quasi middle class in the Hungarian society.

4. The main trends in the change of social structure

The systemic change has brought new ideologies and new values to the Hungarian society which can contribute to the development of a civil/bourgeois society. This process, however, is undoubtedly full of difficulties and pitfalls. The transformation of the economy cannot be realized without sacrifices, and this is a source of conflicts. The least tolerable change for the Hungarian society is certainly the increase in social differences. It is self-evident already that there are both losers and winners in this process. While we can observe the emergence of a new, rich group of consumers in the private sector, large masses are becoming impoverished. The extreme social differences have been unusual for the Hungarian society, and now it has to accept the fact that the development of the civil/bourgeois society cannot be done without the extreme polarization of the society, which manifests itself in luxury houses, big cars, travels abroad on the one side, and on the other poverty and unemployment. This polarization generates increasing dissatisfaction, conflicts and a lack of understanding. Will the Hungarian society be able to manage and solve these conflicts? There is one important fact that we must always bear in mind: this is not a civil society yet, it is only trying to create the conditions that can help it become one.

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TRANSFORMATION OF THE CONSTITUTIONAL MODEL

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1. The specific features of transformation

1. In 1989–90, Hungary went through a peaceful change of regime. This peaceful character was ensured by several internal and external conditions. Among the favorable internal conditions I wish to point out the following as particularly important.

a) The 1956 revolution and civil war were followed by bloody retribution that continued up to the early 1960s. After this period, however the party state and state party chose to introduce a soft dictatorship in Hungary. This new political regime, which could be described as authoritarian, rather than totalitarian, tolerated free expression of opinion in literature, arts and sciences, except for one taboo: it did not allow the party rule to be questioned. After the 1968 reform of economic management, private business became possible and often prospered in agriculture, house building, retail trade and the catering industry. This was called the "second economy". From the early 1980s on, the literary activities of the opposition, attacking the very basis of the political and economic system, intensified. At the same time, it became self-evident that the centrally controlled and planned economy based on state ownership was not able to compete with the system of private property and market economy. Realizing the deepening crisis and contradictions, the reform socialist members of the state party also began to demand – in higher number and with increasing determination – the radical reform of the so-called socialist economic and political system.

b) As a consequence of the above processes, the power of the conservative groups supporting János Kádár was felt to be considerably weaker at the congress of the Hungarian Socialist Workers' Party, held in April 1988 than before. In June 1989, trilateral conciliatory talks were started among the opposition parties that were revived or newly established in late 1988 – early 1989, the state-party and thirdly, the representatives of certain social organizations (e.g. the National Patriotic Front, the trade unions and

some youth organizations) on the basic issues related to the reform of the constitution.

c) I wish to mention here that the government initiated the development of a constitutional reform in 1988; this work was directed by Kálmán Kulcsár, academician and minister of justice; the new concept was discussed by the Hungarian Parliament in March 1989 (KULCSÁR, K. 1989a). This new concept was the result of efforts to incorporate several principles of the civil/bourgeois constitutional states and the majority of the basic rights already declared in international agreements into the concept of the so-called socialist constitutional state (KULCSÁR, K. 1989b). The elaboration of this concept was facilitated by the fact that one research institute of the Hungarian Academy of Sciences had managed research projects aimed at developing the theoretical foundation for the reform of the constitution ever since the early 1980s. As a result of these activities as many as 50 volumes were published by 1989, written by several researchers – among them the author himself – on the characteristics of the constitutional state and its institutions.

d) The trilateral political talks lead to an agreement signed on September 18, 1989. The ruling party agreed to compete with the other parties at free parliamentary elections. These talks and the ensuing agreement on the constitutional reform, the situation of the parties, the election system and the Constitutional Court may rightly be called political legislation (ÁDÁM, A. 1990). The parliament, which had been elected in 1985, passed the provisions of the agreement drafted as a bill practically without modifications. This explains how it became possible for the president of the old parliament to proclaim from the balcony of the Parliament building on October 23, 1989 that Hungary was a Republic again. It was on that day that the act modifying about 90% of the 1949 constitution, as well as the acts on the political parties, the parliamentary elections and the Constitutional Court took effect.

e) There have been several instances in the history of Hungary for bargaining and agreement between conflicting political forces to result in the solution of conflicts and the transformation of the political system or political model. Good examples would be the "Golden Bull of Hungary" in 1222, which settled the conflict among the king, the barons and the landed gentry; the "1687 Act" in which the Hungarians gave up their traditional right to elect their kings to the Habsburg dynasty, accepting their male linear order of succession; the "Pragmatica Sanctio" of 1723, accepting the female linear order of succession; the April laws of 1848 (passed by the last feudal parliament elected in 1847 and sanctioned by the King), which put an end to the feudal privileges, institutionalized the representative system, the responsible ministries and declared several civic liberties; and last, but not

least, the Compromise of 1867, which marked the end of absolutism that had followed the defeat of the 1848–49 revolution and civil war, and established the Austro-Hungarian Monarchy. We can say that the peaceful change of regime in 1989–90 is rightly listed among the great historical compromises that have helped to solve national, social and political conflicts.

f) The willingness to compromise and to transform the system in a peaceful way was present in the events that followed the changes of regime, too.

– On October 23, 1989, there was not a new constitution ready to be introduced; it was the constitution of the former regime that was reformed in such a way as to guarantee the constitutional framework for the systemic changes that continued in politics, the society and the economy as well as for the creation of the institutions of the constitutional state.

– On the above date, the constitutional framework was changed significantly but the majority of the government offices continued to work with an unchanged organizational structure and authority for a certain period of time.

– Although the power of the state party was eliminated, the basic rights and modern principles were incorporated into the basic law and a lot of old laws remained in effect. These are gradually being replaced with modern laws, or – if authorized people object to the unconstitutional character of these old laws – the Constitutional Court will rule on their annulment. Among the laws in effect at present we can find the elements of continuity and discontinuity as well.

2. The talks and agreements between the new and old political forces in the constitutional reform were influenced by the following three groups of principles and viewpoints.

a) To what extent should the new constitution, marking the end of a four-decade long foreign political regime, restore the centuries old traditional principles and institutions of Hungarian constitutional life.

b) Which of the several types of government found in the developed countries should Hungary adopt.

c) To what extent should the legislation on the constitutional institutions (e.g., the election system, the head of state, the parliament, the position of the government) allow the political, tactical considerations concerning the acquirement and retention of political power to predominate (KULCSÁR, K. 1991).

First of all, I wish to point out that, among the traditional national institutions, constitutionality, including clear-cut requirements, had several

clearly defined criteria in early and late feudalism, and in the period of capitalist development as well. The demand for compliance with the basic laws, i.e. constitutionality, was increased by the efforts made for 400 years to preserve the national institutions and national independence from the Habsburg. An outstanding element of the Hungarian concept of constitutionality was the "doctrine of Saint Crown" saying that only the representatives of the nation and the king, crowned in conformity with the rules, together had the right to make effective laws. In spite of this, none of the political parties thought of restoring the monarchy. All political forces recognized the principle of the division of power and the separation of the branches of power. However, each party had different ideas about the ways of implementing this principle depending on their own political considerations and interests.

There was, for example, a long political struggle fought over the way the President of the Republic should be elected, and what his functions should be. With regard to the high prestige that Imre Pozsgay had acquired with his role in the promotion of the reform processes, the reform socialist elite advocated that the head of state should be elected directly by the citizens and should have a wide scope of authority. It is worth noting that there was a relatively short period in the transformation process when masses of people wanted Otto Habsburg to be the President of the Republic. (Otto Habsburg speaks Hungarian like a native speaker and is very active at international forums). There would have been no legal obstacles to this solution, because Otto Habsburg had acquired Hungarian citizenship according to the former laws and this is still valid. Before March 1990, the parties in the opposition preferred to have a head of state with very limited powers, considering that there was not a single eligible candidate. After the referendum held on this issue on November 26, 1989 and July 29, 1990 and several modifications of the relevant provisions in the constitution, eventually the latter proposal was accepted and on August 3, 1990, Árpád Göncz was elected by the Parliament to be the President of the Republic of Hungary.

Since the late 1960s, Hungarian specialists of constitutional law have advocated the introduction of constitutional supervision. It is partly due to these efforts that in 1984 a body was set up with 15 members elected from among the members of Parliament and other experts (ÁDÁM, A. 1985). This so-called Board of Constitutional Law functioned with restricted powers and modest results until January 1, 1990 when the unfinished matters it left behind were taken over by the present Constitutional Court (KOVÁCS, I. 1989). The introduction of the Constitutional Court was facilitated by the extended research activity that preceded it. It was a kind of political maneuver

that, at the initiative of the reform socialists, Parliament passed a law on the establishment of the Constitutional Court hoping to secure their position in this institution before the opposition got strengthened. The opposition, however, managed to delay the actual start of the activities. The Constitutional Court was finally set up on January 1, 1990, as a result of a political compromise. The law ordained that five of the 15 members should be elected on November 23, 1989 by the old parliament, another five in March 1990 by the new parliament and the remaining five in 1994 by the Parliament to be elected then, and based on a nomination that guarantees representation for all parties in Parliament. I wish to note here that the Constitutional Court, which at present consists of ten members – all outstanding authorities in this discipline, strives to achieve a modification of the law and limit the number of members to ten. The present members argue that a higher number would make the operation of the Court extremely difficult. It cannot be denied, however, that these efforts may be inspired by the fear that in 1994 experts with political disposition may be elected.

There was a consensus among the political groups participating in the talks on the necessity to establish a system of local government based on Hungarian traditions and with a large scope of authority. The Alliance of Free Democrats, who came in second in the parliamentary elections of March 1990, prevented the functioning of "főispán" (something like Lord Lieutenant before 1945, it means the representation of the government at the county level) being reinstated. As a consequence, instead of the historical 19 county lieutenants, the Republic assigned eight regional prefects to function under the direct supervision of the government with a large scope of administrative authority including the legal supervision of the local governments.

The enactment of the *ius resistendi* in the constitution can be considered as the survival of a Hungarian tradition. This right was already part of the "Golden Bull of Hungary" in 1222, and later reappeared in the "Tripartitum", the famous work compiled by István Werbőczy in 1514, and the parliament gave it up only in 1687, at the request of the Habsburgs, after the Turks had been driven out. Section (3) in paragraph 2 of the prevailing constitution states:

"No organization of the society, government body or citizen should pursue activities aimed at grabbing or using power by force, or the exclusive possession of power. Everybody has the right and the duty to take legal action against such efforts".

3. Legislation legalizing the systemic change in politics and the economy did not come to an end with the constitutional reform in October 1989. In May and June 1990, the Parliament elected at the pluralistic election of March 1990 continued to amend the constitution in about 50 domains. Among others, it annulled the provision of the constitution accepted in 1989 as a compromise, stating that "the values of both the civil/bourgeois democracy and democratic socialism are respected in Hungary". Instead, the current constitution declares that the Republic of Hungary is an independent and democratic state of law. This wording reflects the dramatic changes in the balance of power within a few months and was followed by modifications of the provisions on the economy, the position and relationship of the central government bodies, on legislation and on certain fundamental rights.

As a result of the modification of the constitution in *June 1990*, the economic regulations related to the fundamental right to own private property, the equality in the legal status of property owned by the state, the local governments and private people, the market economy, the freedom to do business ventures and freedom of competition, as well as the right of inheritance, were all defined more unambiguously. It is quite natural, that the political parties and social communities show a great interest in and often fight over the way in which the state or co-operative ownership of the means of production should be broken down, the issue of how and to what extent we should recreate private property, and the social impact of capitalist development.

4. In 1988, Hungary promulgated the Optional protocol to the International Covenant on Civil and Political Rights, which had been ratified by an Act of Parliament in 1974 and which entitles individuals who claim that any of their rights enumerated in the Covenant has been violated to submit a communication to the competent international forum.

The Republic of Hungary signed, in Rome on November 6, 1990, the European Convention on Human Rights and the Nine Additional Protocols thereto. Under them, Hungary also has the obligation to bring, possibly before the ratification of the Convention, its legal system, together with matters of detail, into line with these instruments. After the ratification October 16, 1992 of the Convention, Hungarian citizens and persons subject to Hungarian jurisdiction will likewise be entitled to submit communications against violations of any of the rights set forth in the Convention, subject to certain other conditions, to the European Committee on Human Rights and the European Court of Human Rights, requesting these organs to ensure

compliance by the Republic of Hungary with its obligations under the Convention.

5. After this statement, I wish to make a little digression and examine the changes in the political parties. In the first two years after the freedom to establish of new political parties was granted, there was a craze leading to the establishment of more than 60 parties. At the parliamentary election in March 1990, only six of them had seats in Parliament. The distribution of the 386 representatives was the following: the Hungarian Democratic Forum (advocating the national–populist and Christian traditions): 166; the Alliance of the (social-liberal) Free Democrats: 95; the Independent Smallholders' and Citizens' Party: 44; one successor of the former state-party, now representing social-democratic principles, the Hungarian Socialist Party: 33; the Alliance of Young Democrats 21; and Christian Democratic Party: 21; and the group of independent politicians: 6. At the time when this essay was written (in December 1992), the orientation of the six political parties, independently from their names, can be grouped into three larger ideological trends, namely national–populist–christian, liberal and left-wing social. Within the particular trends, there is, of course, a strong competition for monopoly.

The three main trends differ from one another in their views on the way and social basis of capitalist development, the role of the state in the transformation process, the forms of government participation, the legal status of the media and the management of social problems. The liberals intend to rely more on the participation of foreign, primarily American capital and the reestablishment of the one-time liberal Hungarian banks and industrial capital. They criticize the national–populist–christian coalition for their economic policy being managed by an increasing government bureaucracy, proceeding very slowly, limited by the amount of capital available and oriented rather on the traditional upper and lower middle-classes. The strong antagonism between these two political forces is further increased by the fact that in the opinion of the opposition parties this national–populist–christian group, which has majority in the Parliament and is in power now, does not recognize properly the neutral, independent status of the press and the electronic media but strives to influence their activities through the selection of their leaders and by other means.

Within the liberal group, the popularity of the Young Democrats is increasing, which can partly be attributed to the fact that both the Hungarian Democratic Forum and the Alliance of Free Democrats tend to rely on a particular class or stratum while the Young Democrats advocate capitalism and the liberal state in general, overcoming the conflicts among the various

social groups, representing the general interests of the emerging middle classes and the developing civil state.

The Socialists recognize the need for the change of regime, the principles of the constitutional state, the justification for the market economy, and they are gradually getting out of their isolation within the Parliament. Although both the coalition and the liberal opposition parties invariably point out that they do not count on the Socialists as allies, in the course of the parliamentary debates the standpoint of the Liberals (Free Democrats and Young Democrats) and that of the left-wing Socialists often coincide. The successes they have achieved in some by-elections secondary/Local, seem to confirm that the role and popularity of the Socialists is getting more and more important because they are willing to face the challenge represented by the increasing social tensions due to increasing unemployment, inflation and other difficulties and because of the ties they have maintained with the big trade union movements.

6. The category of laws requiring a two-third majority was introduced in 1989 as a product of distrust among the opposing political forces, and has remained although under a different name and covering a smaller number of issues, even after the modification of the constitution in 1990. The 1989 reform of the constitution introduced as a new form of legislation the category of "laws of constitutional force" that can be passed by a two-third majority of the representatives, and, in the hierarchy of laws, is lower than the constitution but higher than the other laws that can be passed with a simple majority. The basic rights defined in the Constitution and several other issues could be regulated only by this type of law. The coalition parties that won the general elections in 1990 recognized that this kind of legislation would make the political and economic transformation quite difficult to continue, therefore they made a political pact with the Alliance of Free Democrats who finished second in the elections, on the abolition of the category of "laws of constitutional force". It was in return for these concessions that Árpád Göncz of the Free Democrats could become President of the Republic. Although the June 1990 modification of the constitution based on this pact annulled the category of laws of constitutional force, the present Constitution lists more than 25 cases, when relevant law can only be passed by a two-third majority of – not all the representatives, but all the representatives who are present. Legislation on several important issues has not been passed so far for the simple reason that the coalition and opposition parties have failed to reach an agreement on the legislative principles to be applied in such cases. Experience has shown that more and more experts and politicians are adopting the view

that I myself approve of, and according to which the category of laws to be passed only with a two-third majority should be abolished, or the use of so-called "organic law" should be restricted to legislation related to the most important components of the government structure only (like the Constitutional Court, the courts, the local governments, the election system).

2. The system of central government bodies in Hungary

The systemic change that took place in 1989 and 1990 did not leave intact the central government bodies either. The new system meant not only the liquidation of several government bodies – like the Presidium, which had unlimited powers to substitute for the Parliament between elections, and also performed the functions of the head of state, or the National Planning Office, etc. – or the establishment of new central bodies for the functions or to replace the old ones; it meant primarily the introduction of new principles on the operation of the Parliament, the relationship between the head of state and the government, and the definition of their powers (ÁDÁM, A. 1991). The structure and operation of the abolished party-state was based on the principle of the unified state power controlled by a single political center. The emerging constitutional state, however, is based on the principles of the division of power, the separation of the branches of power, the checks and balances, and the need for a multi-party system. Besides the legislative, executive and judicial powers, we have as independent power centers the head of state, the Constitutional Court and the network of the local governments. In fact, the Hungarian government system is organized around six power centers. Now the foundations of the multi-center power system have been laid down, but the renewal of the state organization is still going on. Preparatory work is going on for the establishment of a four-level judiciary organization (municipal, county, regional and supreme), as well as the transformation of the Public Prosecutor's department. Functions like the Parliamentary Commissioner for Civil Rights and the Parliamentary Commissioner for Ethnic Minority Rights have not been filled yet. Hungary is going through a difficult period of political, social and economic transition and development. It will be the task of the new constitution promised in the present, modified constitution and to be developed by the parliament elected in 1994 to make use of the experiences gathered until then and to define the basic principles for the organization, functioning and power of the central government bodies in the long run. This will also allow legislators to make decision on the proposal advocated by certain political forces and researchers, too, according to which the present one-chamber parliament should be complemented with a

second chamber, consisting of representatives of the most important interest groups (e.g. counties, churches, trade unions, etc.).

A) On the relationship between the President of the Republic and the Parliament

The relationship between the head of state and the Parliament is characterized by interdependence. Although the head of state has no political responsibilities, the important rights granted to Parliament versus the President of the Republic question the neutral position of the President. Any member of the Parliament can propose a motion of incompatibility against the President that can be decreed by a secret vote of a two-third majority. One fifth of all the members of Parliament can move legal action against the president of the Republic if they believe that he has infringed on the Constitution or any of the laws in the exercise of his duties. This motion can also pass with a two-third majority. Judgement in such matters is made by the Constitutional Court. Should the Constitutional Court establish that the head of state has seriously violated the constitution or any law, it has the power to divest him of his office.

It can also be stated that the President of the Republic has important rights versus the Parliament. He has the right to attend and speak at the sessions of the Parliament and its committees, initiate laws, parliamentary decisions, even a referendum.

He is responsible for the promulgation of laws within 15 days of the date of receipt, or within 5 upon a the motion of urgency from the Chairman of the Parliament. He signs the law before promulgation. If he disagrees with the law or any one of its provisions, within the above defined period he can send it back – together with his observations – to the Parliament for reconsideration. In such cases, the Parliament discusses the bill again and votes. Following that procedure, the President of the Republic is obliged to sign it and promulgate it within five days. The President of the Republic also has the right to send the law to the Constitutional Court, requesting their resolution within the period defined above, if he thinks that any one of its provisions is unconstitutional. If the Constitutional Court – in course of an extraordinary procedure – establishes the unconstitutionality of the law, the President of the Republic sends it back to the Parliament, otherwise he is obliged to sign it and promulgate it within five days.

At the request of the President of the Republic, an extraordinary session of Parliament must be convoked. In the course of one term he also has the right to adjourn the session of Parliament for a maximum of thirty days. I do

not wish to go into the special rights of the President of the Republic in cases of war, emergency or extraordinary situation, to be exercised in co-operation with specific government bodies or officials.

B) On the relationship between the President of the Republic and the government

1. The most important element in the relationship between the President of the Republic and the government is the fact that the prime minister is elected by a majority vote of Parliament at the proposal of the President of the Republic. Although the constitution has no provision for this issue, it is taken for granted that – before making the motion – the head of state takes into consideration the power relations within the Parliament and the outcome of talks among the coalition parties. The person recommended by the head of state is obliged to submit his program to the Parliament before his election. The Parliament votes on the Prime Minister and on his submitted program at the same time. It is an important feature of the government system, developed after the modification of the Constitution on May 9, 1990, that ministers are appointed and dismissed by the President of the Republic at the proposal of the Prime Minister. It means that both immediately after the parliamentary elections, and later, it is essentially the Prime Minister who decides on the appointment of the ministers – if necessary, after negotiations with the parties of the coalition – because the President of the Republic acts on his recommendation.

Although the system of the central government bodies is dominated by the elements of the parliamentary republic, this outstanding role of the Prime Minister in deciding on the composition of the government, the development of the government program and the organization of the work of government offices is considered a specific feature. In addition to this, the mandate of the government expires if the Prime Minister dies, resigns, or is receives a vote of non-confidence by the Parliament; and the vote of non-confidence naturally entails the election of a new prime minister. Taking all this into consideration we can conclude that the Hungarian government is a structure subordinated to the Prime Minister (or is a quasi chancellorship).

2. It should be pointed out that, besides tying the government to the mandate of the Prime Minister, the constitution continued the Hungarian parliamentary traditions in defining the corporate and individual responsibilities of the ministers towards the Parliament. The corporate responsibility of the government can be enforced by means of a vote of

confidence that is to be initiated by the government, however, the provision of the Constitution that "the members of the government owe responsibility both to the government and the Parliament and are obliged to report on their activities both to the government and the Parliament" does not mean real accountability. Neither the government, nor the Parliament have the right to dismiss ministers. Their dismissal can be motioned only by the Prime Minister to the head of state. Actually the mandate of the ministers depends on the head of government. This is why it is highly desirable to complete legislation – as promised in the Constitution – on the legal status, accountability and remuneration of the members of the government and secretaries of state. However, it seems most probable, that this new law can do no more than define the *legal* responsibility of the ministers, disregarding their political responsibility towards the Parliament if the previously described strong power of the Prime Minister is left unchanged.

3. The executive branch is further strengthened by the provision that the head of state can dissolve the Parliament if "the government's mandate is terminated but the Parliament fails to elect within 40 days the person proposed for the position of the Prime Minister by the President of the Republic". It is also true that another – alternative – condition for the dissolution of the Parliament, namely that within a period of twelve months the same Parliament votes non-confidence for the same government, serves to stabilize of both the government and the Parliament. In reality, this latter condition can hardly materialize.

4. The critical point of the Hungarian government system is still the uncertainty derived from the definition of the position of the head of state in the constitution. With due consideration to the historical traditions in Hungary that would reject strong personal power, and also to the bad social experiences related to it, I believe that the demand for a presidential government, in which the executive power is governed and represented by the head of state, is unfounded. It would be equally detrimental to divide executive power between the responsible prime minister, or the government, and the head of state.

Experts of constitutional law should, however, seek an answer to the following question: how should powers be divided so as to provide constitutional guarantees for (ensuring) the leading role of Parliament, a unified and efficient executive power exercised by the government and the offsetting role of the head of state between these two branches of power and his politically neutral functions required in certain fields of social life?

Before analyzing the various solutions to the above problem I wish to explain why it is necessary to have a politically neutral head of state in the present stage of political, social and economic transformation. As I see it, the main reason is that – as it has happened so many times in the history of Hungary due to our belated development – the change of regime did not come organically, but was induced by different political forces and concepts. Consequently the decisions made by the Parliament and the government are also motivated by the interests of the political forces that came to power as a result of the parliamentary elections. In a parliamentary system based on multi-party elections, the political orientation of the majority in Parliament and that of the government are usually identical. If the opposition does not participate in the government – which is natural in normal conditions – there is practically no division of power, politically speaking, between the legislative and the executive branches. The party which has the majority in the parliament or the coalition parties and the government that they support do not have the function to counter-balance each other, but represent a homogeneous political force, motivated by the same goals. They are politically supervised but at the same time stimulated by the opposition in parliament, which is, for the time being in the minority, but hopes to come to power after the next elections. It has been proven by recent experiences with parliamentary democracy, especially by the occasionally overdone political battles fought by the opposition parties in Parliament that our modern social and economic life may have certain fields that require treatment by a *neutral* power, which represents permanent and constant national interests and is free from the political prejudices or tactical considerations of either the parliamentary majority or the opposition. These are, for example, the appointment and dismissal of the presidents of the national media, the officials of courts, the judges, the attorney general, the commander and generals of the national army, as well as university professors; pardon by the head of state; immunity from certain legal conditions in well-defined cases; and awarding certain honors.

In my opinion, decisions made by the head of state in its politically neutral functions need not be countersigned by the prime minister in the future. In order to guarantee unity of the executive power and the harmony of foreign and internal policy shaped by the responsible government, certain decisions made by the head of state should be proposed or countersigned by the prime minister, or the competent minister (like the appointment or dismissal of the members of the government, secretaries of state, ambassadors and envoys, the establishment or disruption of diplomatic relations, the establishment and liquidation of embassies or consulates, the ratification of

international agreements at the level of heads of state and the recognition of new countries).

The President of the Republic of Hungary can get into a neutral position only if his authority does not derive from the politically oriented Parliament, or general elections organized by the parties, but from a special electoral body (established according to the provisions of the Constitution) representing all the political forces of the nation, and the most important, non-political interest groups (churches, trade unions, scientific and cultural institutions, professional bodies, etc.).

3. Some characteristics of the activities of the Constitutional Court

The Constitution and the 1989 Act on the Constitutional Court (No. XXXII) guarantees that this body can function efficiently and independently from all other organs. Its resolutions are binding on everybody, and nonappealable. The most important of its rights is the one related to subsequent supervision of legal norms, which is known to have three versions.

a) Subsequent abstract evaluation of norms is made specific in Hungary by the fact that it can be initiated by anyone without giving evidence of interest or involvement. This possibility can be qualified as *actio popularis*, and explains why such a high number of motions has been sent to the Constitutional Court (more than 2000 annually) (LÁBÁDY, T. 1991a).

b) One example of the specific evaluation of norms is the procedure that is motioned by an ordinary judge because he believes that the law/decreed he is to apply for the case in front of him is unconstitutional.

c) Another type of the specific evaluation of norms can be motioned by the regional Prefect of the Republic if he thinks that a decree issued by one of the local governments is unconstitutional or unlawful (ÁDÁM, A. 1992).

Another important function of the Constitutional Court is the right to determine a violation by default of the constitution if one of the government bodies has failed to perform its duty to enact laws and thereby has violated the constitution. In such cases, the Constitutional Court can set a deadline for the rectification of the default. At the request of a few government bodies defined by law, or some officials, the Constitutional Court will give an authentic interpretation of certain provisions of the Constitution.

It also settles disputes that government bodies and local governments may have over the scope of authority (except for the courts).

During its three years in operation the Constitutional Court has made decisions on many important issues. It has abolished capital punishment, and

ruled on the constitutionality of the former laws of nationalization, the conditions of abortion, the possibilities of privatization and reprivatization, the relationship between the prohibition of *ex post facto* laws and the resumption or the statutory limitation on punishability, the unconstitutional character of the unified and exclusive personal code, the debate on the authorities of the President of the Republic and the Prime Minister, etc. With regard to equal rights and the prohibition of discrimination, it has defined conditions for positive discrimination and the principles for the limitation of basic rights.

On the basis of its experiences, the Constitutional Court has developed several proposals for the improvement of the law governing its activities (LÁBADY, T. 1991b). Among others, they propose the abolition of the preliminary evaluation of legal norms for bills not yet passed by the Parliament, the limitation of the number of those entitled to motion a subsequent abstract evaluation of legal norms, and the delegation of the right to the legal supervision of local government decrees to the administrative courts. (The administrative jurisdiction was introduced by Act XXVI of 1991). Another important proposal concerns the protection of basic civil rights against the violation by individual decisions of the authorities, i.e. a better definition of the subjects and conditions of complaints of unconstitutionality.

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THE CURRENT PROBLEMS OF LOCAL/REGIONAL GOVERNMENT IN HUNGARY

PÁLNÉ KOVÁCS, Ilona

1. System change

After the change of both the newly elected Parliament and the government efforts were made to clarify the balance of power at local-regional levels as well, and create the new model of local government.

It should be mentioned that the liquidation of the Soviet-type council system, and the preparation of the reform of local government started well before the change of the regime. This process was accelerated when the new regime eliminated the ideological and authoritarian obstacles to the systemic reform, and laid a new basis for the new structure of the state and political system by separating the branches of power and creating constitutional guarantees for a pluralistic democracy.

In 1990, the Parliament passed the Act on Local Governments by a two-third majority vote (consensus of the six parties represented in Parliament). This act rises to international standards as far as its spirit and liberalism are concerned, and, at the same time, has brought a dramatic change in the organization of Hungarian public administration. The right to self-government was defined as the collective right of citizens living in the same locality and the settlement became the key element in the local government system.

The Act declares the relative autonomy of local governments, stating that decisions made on matters related to local governments are final and can only be revised for lawfulness. Its provision stating that local public matters can be remitted to other state government offices only in exceptional cases is of great importance from the viewpoint of constitutional law.

The liberal spirit of the Act is well illustrated by the fact that it allows a liberal distribution of local governmental functions on a voluntary basis, being obviously more favorable to local governments of settlements, versus regional governments or counties.

The Act defines the compulsory tasks of the local governments, specifying the government support they are to be given, and indicating that

larger local governments can be assigned more tasks. Distinguishing between tasks of local governments and public administration, it provides that the authority of the local governments can only be defined by law.

For the good operation of the system it was important to declare that local governments would have equal rights, and that counties would have a subsidiary status. This principle put an end to a previous, century-long tradition that gave more power to counties or regional governments.

The 1990 Act on Local Governments states that the county can assume only such functions as the local governments in the settlements cannot be obliged to perform, or that they refuse to assume.

The Act grants local governments great freedom to establish organizations, pass decrees, join alliances for the protection of common interests and other types of association.

On the whole, the Act can be rated as very progressive, with the remark, that – as the experiences of the last two years have shown – it is a problem that in many aspects it only outlines the frame of operation, leaving out of consideration the following circumstances:

- In the division of functions, the border between the state and the local governments should have been made more unambiguous, as a protection against the inevitably expanding central power.

- The autonomy of local governments requires not only rights but political and economic guarantees as well, because without this autonomy will be no more than a formal legal fact.

- Local societies and politics are not yet prepared for the liberty given to local governments, which inevitably leads to functional disturbances.

In the chapters that follow, I wish to describe the consequences of these "pre-programmed sources of errors".

2. The macro-political interrelations of local government operations

The importance, democratic character and content of local government activities are primarily defined by macro-level interrelations (like legislation, constitution, division of labor, economic conditions and macro-political relations). This is particularly true for Hungary at present, where the new structures are just being developed, the new local governments cannot rely on long-established norms, practices or traditions. The division of power, authority, property and sources for development and operation between the state and the local governments is undoubtedly a political issue and its outcome depends on the bargaining positions of the parties involved.

The evaluation of the macro-level positions of the local governments will be easier after a review of the central power relations and the opportunities that the local governments have to promote their own interests.

The first question to be asked is whether the present composition of the Parliament can serve regional interests, i.e. to what extent it can be called "local-government-friendly".

The mechanism of parliamentary elections is not very sensitive to regional interests, because the majority of representatives gets to the Parliament from a list, and being on a list, even if it is a list made by a county, does not necessarily mean a relationship to the region, because being a resident of the county is not a requirement. In the case of the individual constituencies, the ties would seem to be stronger, but the majority of the candidates in the constituencies were supported by their parties.

Promoting regional interests is not a part of the activities of representatives in Parliament, because they work in factions or committees and take common ground only with members of the same party in their county or constituency.

The alliances of local governments for the protection of common interests have the responsibility to mediate between the local government bodies, and the national government. Legislation on this function, however, is quite vague, therefore they hardly have any importance. The slight political influence of the alliances of local governments is also due to the fact that there are too many of them, they rarely co-ordinate their activities and, more than once, they get into conflicts with one another.

The relationship of the political parties to the local governments is quite ambiguous, which can be explained by the results of local elections. Considering that members of local governments are mostly independent politicians or come from or are supported by the parties that are now in opposition in the Parliament, the decisions made by the national government or coalition parties on local governments are interpreted in a macro-political dimension, further deepening the natural conflict between central and local power. The result of local elections most probably did not promote the development of a "local-government-friendly" attitude in the national government.

In summary, we can say that the macro-political position of local governments is weak. The party-oriented political mechanism and election system, the weak co-operative elements and efforts of the present government forward centralization, have all contributed to the present situation, where formally (by constitutional right) local governments represent one branch of power, in reality, however, they do not have any significant power. This

problem cannot be solved by legal means only. However, without a more efficient representation of regional interests, the model of a decentralized state is jeopardized.

3. The structure of regional government, the relationship between the local government and the decentralized organs

A few words should be told about the system of regional government before 1990.

In the case of the Soviet-type council system, power was not divided between representation (local government) and public administration. The council system incorporated the various tasks from the safeguarding of interests to the supervision of companies and management of services, placing all this under the control of representatives. The socialist state did not "distrust" the regional councils, therefore it failed to develop a deconcentrated system of public administration since it had control over the whole mechanism once regional government as a whole had been incorporated into the prevailing hierarchy. This means that the new model of local government instituted in 1990 inherited a completely unified system of regional government. As to this legacy, there is one more specific feature of the last 40 years that should be mentioned.

The Hungarian council system functioned not only in a unified, but also in a regionally integrated, concentrated organization mechanism. This was true for governments in small villages, gravity zones of larger towns and the administration of towns as well. The degree of integration supposedly increased efficiency and the professional level of administration, but, at the same time, resulted in a huge "deficit in democracy" and made representation just a formality within the councils.

The most important focal point was the county council, which controlled the activities of local councils in several ways, ranging from legal supervision, through the direction of public administration, to acting as a forum of appeal, an allocator of financial resources and a major investor in the provision of services.

These are the conditions that lead to the previously mentioned characteristic feature of our model for local government, which made conscious efforts to eliminate all the compulsory points of integration. There are two aspects in which the Hungarian system of local governments differs from the West European trends. One is the aspiration of small villages to absolute self-rule and autonomy, and the other is the loss of importance regional self-government.

Before analyzing these phenomena in detail, let us examine the division of regional government in two sectors: one, performing tasks referred to the national government (public – deconcentrated – administration) and the other, the county with functions of local government.

The uncertainties in legislation, the centralization efforts of the central government, and the insistence of the ministries on direct control have provoked a strong deconcentration process. This process is characterized by eventuality, i.e. the direct expression of the ambitions of the individual ministries, and the fact that the majority of the "nationalized" functions were taken away from the former county councils. In this way, the elimination of the "power of the counties" – instead of increasing the authority of local governments – only made the central and local units of the national government more powerful.

The state, ever since it established the formal–legal autonomy of local governments in decision-making, has never given up the ambition to restrict this autonomy as much as possible. This is how functions like the operation of the regional financial information system, the management of public health and land-related matters, the protection of the environment, labor management etc. have become the responsibilities of the state.

The strengthening of the deconcentrated public administration took place mainly at the expense of the counties, the medium level of government. A good look at this decentralized organization will reveal that it acquired the powers that used to belong to the county councils. If we examine a little more closely how powers are delegated, we find that decision-making authority have been moved upward in the hierarchy with complete disregard for the local governments.

Among the institutions of this deconcentrated system, the prefect and its increasing power are worth particular attention. It is a well known fact that the position of the prefect – whose authority extends over several counties – was created as a result of an important political compromise during the preparation of the Act on Local Governments. It did not seem acceptable for the logical framework on local governments to delegate the right of legal supervision to local governments. The purpose, or – better to say – the frequently quoted justification was, that the legal supervision of local governments and the power of second appeal should be delegated to an external organization that only deals with administrative matters. The opposition parties could prevent this position becoming something like the ill-famed "*főispán*" (appr. Lord Lieutenant) before 1945, this is why this function was created in such a way that the prefects should be appointed by the President of the Republic (and not by the government) and each office

should be made responsible for "regions" and not counties. Actual practice has, however, gone far beyond the original purposes and ideas. It is true, that formally the President of the Republic has the right to appoint the prefect, but all eight prefects – with offices in all nineteen counties – report to the government or Minister of the Interior, and their assignment was politically motivated. Now their authority is far from being limited to only legal supervision, which, in itself, would give them great power and influence.

The flexibility of the Act on Local Governments has allowed the prefects to acquire more and more authority, and a recent decree issued by the government further strengthened their position with new tasks that are really far from a neutral public administration. It became clear however, that the activities of the local governments and deconcentrated offices working in the same regions should be co-ordinated in the fields of regional/settlement development, and the local implementation of government projects as well.

Quite recently prefects have been seen and heard at forums that question their function as neutral organs of public administration, primarily responsible for legal supervision, and suggest the emergence of new regional power centers. Government officials use the term "regional" more and more frequently as if the regions were not only created to act as areas of competence for the prefects, but were organic elements in the historical development of the Hungarian state.

It would be very dangerous to let the future model and structure of regional government develop according to the ambitions of the central power.

Let us conclude this part by saying that constitutional law has not yet clarified the model of regional government; what we have now is the co-existence of local and national governments, their relationship depending upon present-day interests, because there is no concensus on the future of public administration.

4. The medium level of government, the travail of the counties, the disintegration of small- and medium- sized areas.

When the Act on Local Governments was being drafted the general requirement was to make the new regional level strikingly different from the character of the former county councils. This anti-county attitude was quite understandable because the county council meant to practically everybody (especially the settlements) the major obstacle to local autonomy.

In contrast with this general opinion, counties did not have such unlimited authority, on the contrary, in the past few decades their allocating power was strictly subordinated (even legally) to the economic and

infrastructural priorities defined by the center. The counties tried to promote the interests of their own region (often by lobbying and other informal methods) when the central allocations were made, having, at the same time, to fight against the rival counties, and assume the unpopular part in the local allocation of the resources obtained.

After 1985, the function of counties was significantly modified due to the effect of the more liberal economic regulation, the introduction of the normative principle in allocations, and changes in the policy on settlement development. The scope of discretionary allocations was reduced, but it happened at a time when resources for development were cut to a minimum.

This strong aversion to the county councils and the oversimplification of the related problems caused serious harm to the legislation on local governments.

The disadvantage to county-level government was made obvious from the very beginning by the basic law. Let us take, first of all, elections, as a basis of the legitimation of local governments. County-level governments can be elected indirectly, through electors, which means that they have a secondary legitimation derived from the local governments in the settlements. Although the county – in this interpretation – should function as a representative of local governments, it is precisely its relationship to the local governments that has not been defined properly. On the one hand, not all local governments are represented in the county assembly, and this is particularly true for counties with lots of tiny villages. On the other hand, the law has no provisions for the direct relationship between the county and the local governments in the settlements, taking great care, however, not to restrict the autonomy of the settlement in any way.

The secondary importance of the county-level government is also expressed in the division of tasks and responsibilities. The county was given tasks that involve larger areas or the whole country, but the local government of any settlement can assume the same tasks by itself or in co-operation with other local government. It means that the functions and competences of the counties can change in space and time, and the continuous modifications depend on the one-sided decisions made by the local governments of settlements.

The third point is that the activities of the county-level government are *ab ovo* restricted by the definition of the legal status of towns with county rank. The Hungarian Parliament has ruled on the institutionalization of 20 towns of county rank in the 19 counties. These are not represented in the county assembly, and for the time being there is no real co-operation between the counties and towns of county rank.

At present, the medium-level integration is still missing from the structure of regional government. What we need is a kind of information, co-ordination, development and management center that is capable of flexibly representing and co-ordinating the autonomous actors of the economy and local governments, bearing their local and regional interests in mind, but not directly with a profit orientation.

After two years of activities, local governments should have recognized that it is not possible to make wise decisions on even smaller issues, or operative questions if these cannot be put in a larger future perspective, or are not based on a thorough analysis of the objective conditions. Otherwise, there will be too much improvisation, haste and inconsistency in our work, causing serious damage to the future prospects in our operations.

Besides the lack of perspective, another weakness is the lack of thinking in larger areas. The decision-makers of local governments cannot see beyond their own direct organizational problems, most of them have not established any co-operation within their own settlement either, much less with smaller or larger areas, gravity zones, counties or regions. Such a disintegration, the collapse of the former regional system in public administration whose cohesion was secured by administrative measures, will bring to light the problems at a time when the issues of property and competence have been settled already, leading to the atomization of supplies and the elimination of the inertia caused by the former, strict integration. This process could only be prevented by the administrative mechanism of the local governments but with proper motivation, guidance and orientation. At present, the counties are the only organization that could supply this need for co-ordination, information, planning and regional management.

The only alternative to county-level government would be the prefect. It is already no secret that the central government intends to enlarge the scope of prefects' activities by charging them, in addition to the manifold tasks of public administration, with regional development and co-ordination. It is the common interest of both the settlement and county-level governments to prevent the "nationalization" of regional functions by the prefects.

The fact that the counties have lost importance would not be so painful if the towns or settlements with central functions could take over, i.e. assume the responsibility for integration within the area, or gravity zone. The law allows them to do so, but there is nothing to oblige them and they are not really motivated to do so. The former policy on settlement development and the practice of services management linked the public administrative status to those functions of the settlements; the higher status went together with a responsibility for supplies defined on a normative basis. However, the

administrative status of created areas disintegrated. This was to be expected after the so-called gravity zones were created in 1984, connecting officially but not politically the town and its surroundings. Towns were not able to implement a real administrative integration even in the old regime, and by now they have completely given up this ambition. In my survey covering the last two years, the interviews have revealed that the majority of towns have failed to establish any kind of conscious relationship with their surroundings and when they did, it was under pressure and not based on the recognition of mutual interests. The smaller villages located in the gravity zones preferred to find smaller decentralized areas as administrative partners. I have not discovered any association that would co-ordinate a whole gravity zone. Several associations have been established but they all focus on single issues only, like certain investment development, the improvement of the infrastructure, or various development projects, but there seems to be no need for general co-operation, or joint planning.

This is partly explained by a general aversion to planning and partly by the legislation on associations. The importance of associations is recognized in the Act on Local Governments, and therefore they are considered legal persons, but the regulation is not developed to such a level of detail that would be required for bridging the gap between decision-makers in isolated local governments and the supply development systems in the area. Future legislation should elaborate on the organizational structure, the guarantees for the safeguarding of the members' interests, the authorities to be delegated to the associations, and the potential cases of forced association. Without such correct and clear legislation, the local governments are naturally worried about losing their autonomy to an organization that is capable of taking it away and therefore they fail to recognize the advantages or requirements of associations.

There are signs of disintegration within the settlement supply systems as well. The local governments have not yet discovered the proper forms and methods of management, therefore conflicts are quite frequent between the operating local governments and their institutions. The situation is particularly delicate in case of institutions financed (or used) by several local governments. The basic issues of the relationship between the institutions operated by the local governments and the users or consumers should also be regulated.

Because of these disintegration processes, the consequences of the isolated development policies will become obvious only in the long run. The present mechanism of resource allocation is also a hotbed for uncoordinated decisions on development, since the resources are dissipated, centralized,

cannot be relied on regularly, and the distance from the allocating center prevents the consideration of efficiency requirements.

It can be stated that the whole of the development of regional government is neither conscious nor rational; it is developed through a series of ad hoc decisions. The position of local governments within the system of regional government has not been clarified properly and can be modified unfavorably, but, on the other hand, there are no constitutional obstacles hindering the expansion of deconcentrated public administration.

However, it is difficult to defend the dominance of local governments, the decentralized model, in a situation when the local governments themselves have to cope with severe malfunctions. Although the organization of the local governments is defined more or less clearly, the model does not adapt to the specific regional features and the rules regulating the operation and the methods to be used are still uncertain and apparently some more legislation is needed in this respect.

5. The relationship between local governments and the local society

The local population had not been allowed to interfere with local public issues and it was only at the local elections following the change of regime that it was given an opportunity again to decide on the basic question of local politics, "who should govern"?

The power and scope of political activities are defined partly by legal norms and partly by specific local conditions (sociological, political, etc.).

The most important of the constitutional rules that regulate participation in local power are those related to local elections and direct democratic participation rights. The regulation of local elections is quite a differentiated and complex system and its effect on the results of the elections was undoubtedly great. The system of small lists (basically individual, following the majority principle) was used in the small settlements and proved perfectly suitable for electing the well-known, respected, and trustworthy members of the local community to the local government.

The direct election of the mayor is, in itself, a democratic method, and is in accordance with the ideal of a strong mayor. It is, however, a negative component of the system that immediately after his/her election, the mayor becomes fully dependent on the representatives who have the rights of an employer. And, if of the population is under 5000, they can also decide whether the mayor "elected by the people" should be employed full-time or

he should work without being paid. This contradiction may be one of the reasons why so many mayors have resigned so far.

The mechanism of elections in the larger settlements is more favorable for the political parties, and although other social organizations were also offered the possibility to nominate, the results clearly proved the dominance of the parliamentary parties. This is not surprising considering that these parties had already gained experiences at the parliamentary elections, and their financial conditions and relationships were also better. The influence of the community organizations cannot be strong enough yet to have a deeper influence in a political system that is dominated by the parties.

The high proportion of representatives coming from the various parties was then inevitable considering the system of elections and the state of the local societies.

In practice, the work of representative bodies based on party principles proved unfeasible regardless of the various "flexible" coalitions established. If the work of the representatives is governed by party interests, there will be, of course, lack of confidence and ambition to establish monopolistic power.

Publicity, direct democracy and other means can perhaps offset the dominance of parties. Unfortunately, we cannot speak about such efforts in Hungary, although the Act on Local Governments provides great freedom for the development of the institutional system of local democracies.

The committees play a role of key importance within the local governments in many ways. A committee, as a smaller, more operative organization, is fully capable of reconciling political (administrative) and technical viewpoints preparing decisions, making arrangements for their implementation or supervising them. The committee can only perform its duties if it can represent technical and other organizational interests. In contrast with this principle, many committees in Hungarian local governments were established on the basis of party priorities, disregarding all technical or sectoral considerations. What is more, the selection of the external members was also determined by party interests. A body exposed to party interests and infected with distrust will be very careful about delegating the right to make important decisions to committees. On the other hand, the lack of such authorization will reduce the work of the committees to mere formality. Another sign of the lack of confidence is that no more authority is delegated to the mayors either. It is a frequent experience in towns that a large number of proposals never get to the mayor's office. Such an isolation of the local government will inevitably lead to various malfunctions. At meetings, the discussions often take on a personal character, the meetings are too long

because the points on the agenda are not properly prepared and the lack of efficiency often prevents decision-making.

In addition to representation, the political activities of the local governments are also influenced by the democratic institutions, at least in principle. The Act on Local Governments provides a large scale of such possibilities, and the right of local governments to create new organizations also opens many new ways of establishing relationships with the local society. It seems that the direct democratic institutions are not going to gain any particular importance.

Local governments – considering their legitimacy as a four-year estate in tail – are not motivated to involve the population by means of local referendum, village meetings or public hearings, except for cases when it is compulsory. The worst of this situation is not the fact that local governments are not inclined to govern in a more open and democratic way, but their failure to recognize that a more open political life could lead to more efficiency and better decisions.

These disorders and the non-involvement of the population is more typical of larger settlements, because in small ones it is very difficult to keep the activities of the few local representatives and officials secret. Anyway, the high number of resignations on the part of mayors and, the low participation in the local elections are not very promising signs.

It is true that the lack of political culture, the passive attitude of the citizens and the uncertainties involved in the transformation are all hindering factors in the development of local democracy. It must be understood, however, that the establishment of the organs of local government and the institutionalization of local power, in themselves, are not going to guarantee democracy in government.

The organization of the local governments will not automatically become open and democratic, therefore ways must be found to force them to do so. To a certain extent, citizens must be "defended" from local power, i.e. must be given guarantees for the exercise of their right to self-government. It must also be borne in mind that the relative independence, freedom of the local government from the state is limited or "offset" through participation and control by the citizens. Without these – as many have warned – local power can disintegrate into the rule of petty monarchs.

Local governments must find their own place in the local societies and in the areas or districts surrounding them; they will have to build their own relationships, associations, alliances and partnerships. The failure of their authoritarian and reticent operation and a more conscious attitude on the part

of the local society will certainly give a stronger impulse to local democracy than any kind of legislation could.

One important conclusion can be that the political and legal "limitation" of local power is just as necessary in our days as it used to be in the time of the hierarchic council system based on the monolithic party rule.

The fundamental difference between the two models is that it is a realistic and achievable goal in the case of local governments, whereas it was only a high-sounding slogan under the council system.

6. Conclusions

The adoption of a new local government model was a significant event in the development of the Hungarian society and economy. It has changed not only the regional division of labor and organizations within Hungarian public administration, but also boosted the organization of local civil societies, the development of regional and local markets and business.

The new legislation means only the first step of this development. Unfortunately, we have not yet created the economic and political conditions that would allow the positive character of this new structure to appear in full. The factors hindering the full development of a truly decentralized administration model are: economic recession, deepening regional crises, backward infrastructure, slow introduction of new methods and technologies, uneven availability of human resources, the lack of political culture, uncertain balance of power in politics and insufficient development of the civil society. Reality always has to be considered during the legislative process. At the same time, everyday decisions made under the influence of political ambitions, should not fail to consider the objectives defined in a consensus.

THE ECONOMIC DILEMMAS OF ECOLOGICAL CRISIS-MANAGEMENT*

FODOR, István

1. On the timeliness of the basic issue

A consensus has been articulated in the whole of Europe by now about the necessity of a generally accepted policy on environment control to support efforts for efficient practices of environment protection and management and for the prioritization of environmental qualities. However, the realization of such a policy on environment protection requires powerful and combined efforts. These environmental philosophies bring about a new economic situation in Europe for the attainment of which radical changes in environment management need to be carried out whilst keeping in line with the notion of sustainable development of contemporary science. In our days, however, such a task for economic policy seems unattainable exactly because of the underdevelopment of the strategies for sustainable development. The overall European scene has become more complex by the fact that the eastern parts of Europe have got into an extremely difficult and unfavorable situation by the end of the 20th century inasmuch the general socio-economic crises have been simultaneously accompanied by the crisis of the environment in these regions. Although problems of these sorts were not unknown either in the West or the East, the given concentration and depth of the given set of crises, which we can term a new type of total crisis, have not been seen before.

The environmental crisis-management in connection with the process of changing the economic structure have represented serious burdens even to several highly developed economies in Western Europe. The situation in Eastern Europe is much more serious and complicated. As the crisis expands and deepens the chances for solution become more and more scarce.

*The study is an outcome of OTKA (National Scientific Research Foundation) and PHARE funded research projects.

2. Some common features of the environmental crisis in Eastern Europe

The crisis-structures of the countries in Eastern Europe are very similar to each other in many respects. This claim seems to be especially valid for Poland, the Czech Republic, Slovakia and Hungary. The reasons are supported and explained by several common features and factors.

The environmental policies of the East European countries used to have a lot in common before the setting-in of the recent political changes. In all cases it was the very same entity, the same owner (i.e. the state) that ran the given economic facilities polluting the environment while exercising legal control and responsibility over the development of the environmental qualities. This fundamental contradiction is well attested by the insufficient functioning of the system of courts of environmental protection in the former times.

Interventions of that kind of an environmental policy used to serve primarily to relieve or lift temporarily pressing environmental problems which had very little efficiency after all. As a result, the natural environment steadily deteriorated almost unaffected by the sporadically invested costs to stop the process.

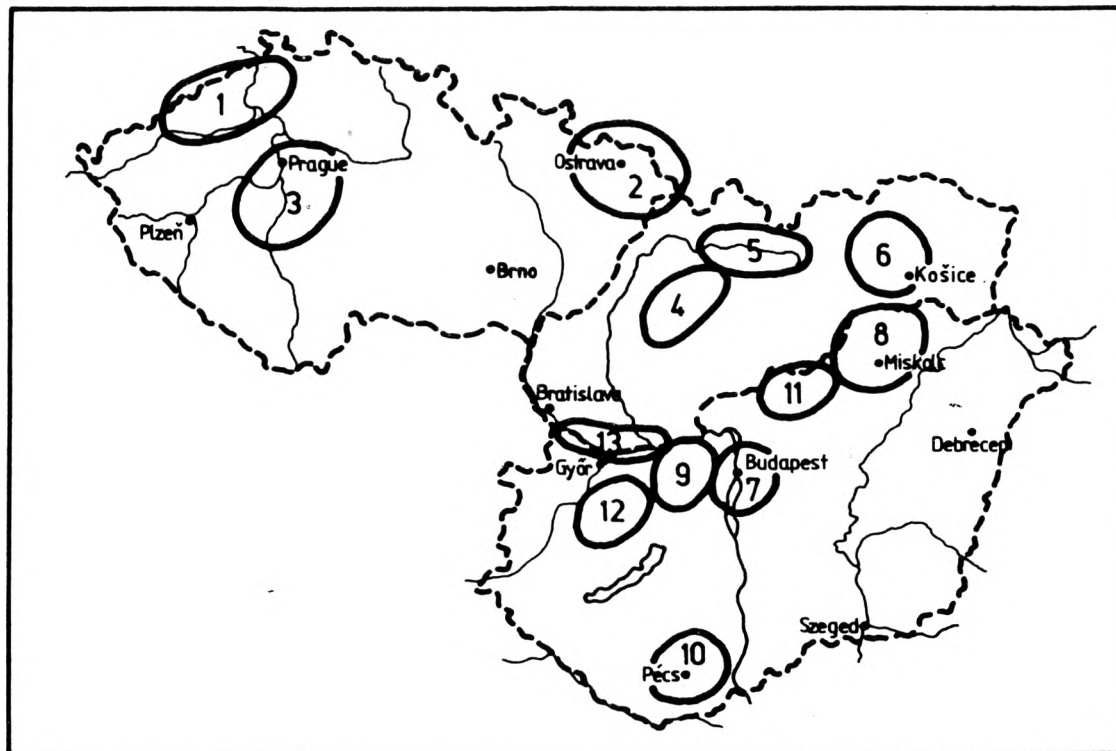
Simultaneously with the general deterioration of the qualities of the environment, the industrial regions that had formerly enjoyed ideological, political and/or economic-political priorities had become regions of ecological crises first and regions of economic depression soon after. Thus, these regions have by today become carriers of heavy and complex social tensions.

Figure 1. shows the critical regions of environmental crisis in the Czech Republic, Slovakia and Hungary. The West European aid programs are actually geared at offering some break-through solution to these ecological depression regions.

3. The PHARE Program: the international aid for funding ecological crisis management

The European Economic Community (EEC) has realized the difficult situation in East European countries that are suffering an overall ecological crisis and decided on an extensive support in the form of the PHARE Program to facilitate recovery of the environmental qualities of the regions involved. In 1992 the PHARE Office and the Hungarian Ministry of Environmental Protection and Regional Development together announced a tender for the distribution of the Hungarian share in the overall East European aid. As a result, the Transdanubian Research Institute, a part of the Centre for Regional Research of the Hungarian Academy of Sciences has won the tender.

Figure 1
The most polluted regions wich produce environmental conflicts in Hungary, Slovakia and Bohemia



Key: 1 – North Western Bohemia (Usti n. Laben); 2 – Region of Silesia (Ostrava); 3 – the envorins of the capital Prague; 4 – the valley of river (Nitra); 5 – the valley of river (Váh); 6 – the region of Kosice; 7 – the Budapest agglomeration; 8 – the industrial zone in Borsod; 9 – the Northern Transdanubian industrial region; 10 – the South Transdanubian industrial area; 11 – the industrial area of Nógrád-Heves; 12 – the industrial area of Veszprém; 13 – Gabcikovo–Nagymaros.

The completion of the Reallocation Study has helped explore several important aspects of the problems and facilitated a better understanding of specific aspects of the difficulties of environmental crisis management.

A major objective of the Study has been to promote and stimulate the completion of effective studies in environment protection addressing questions of decreasing pollution levels and restoring and improving environmental qualities and their submission for competition. It has been a crucial requirement that the studies to be carried out and submitted should representatively cover the most urgent problems in Hungary's environment protection policy.

With the help of the accomplished research project by our research centre we have identified and collected concrete investment programs in environmental protection which were in accordance with the formal and thematic requirements of the PHARE tender. We have evaluated the studies submitted for competition on the basis of our internal criteria of assessment. After internal evaluation we have given selective recommendations to the PHARE Office.

In the framework of a nationwide survey we set the aim of contacting primarily small and medium-size enterprises, economic organizations and local governments. The present study reflects the PHARE-initiated aim of channeling projects addressing environment protection issues in which the investors themselves are ready to find solution – by own or external funding – to one of the following problems:

- I. reduction of VOC and CFC emissions,
- II. reduction of transport-related emissions,
- III. solid and hazardous waste management,
- IV. protection of the water base.

It goes without saying that we considered applications concerning investments in any other relevant fields of environmental protection.

We took it to be a crucial criterion to select project proposals that included beside the effort to reduce emissions the introduction of new, modern procedures and methods of environment protectional interventions.

4. The survey and the methods of pre-selection

We used two methods in pre-selecting the potentially eligible and interested private and public service companies in compliance with the PHARE requirements.

a) *Technical competence and information.* We carried out preliminary negotiating talks with the representatives of the Ministry of Environment Protection and the Ministry of Industry and Transportation. With the help of interviews we also got acquainted with the views and proposals of the green organizations. Based on this pool of information we *contacted 104 companies responsible for the most significant industrial polluting in the country.* As a result, 69 accomplished studies were submitted for tender.

b) *The statistical method.* With help from the Central Statistical Office in Hungary we made further selections from the 68,500 registered companies and economic organizations. *The basic principles of further selection concerning potentially eligible companies* were as follows.

The selected companies should be *representative samples* and should be able to be processed with statistical methods.

Companies should be selected which are *greatly responsible for industrial polluting and which provide for significant technologies.*

Among those selected for interviews there should be *recently founded small and medium-size firms and joint ventures* as well.

From the database of the Central Statistical Office we chose companies for the first phase of interviews according to their type of activity, size and number of employees, form of management and regional representability. A list thus obtained included the 3,814 companies that could have been brought to bear on the set of problems of environment protection specified and identified in the PHARE Program (e.g. transportation companies, water suppliers, food processing companies, textile and paper mills, galvanizer firms and other significant waste producers).

We selected 160 enterprises from the above list with the help of a random number generating method and subsequently called them for interviews.

In determining potential eligibility we found it important to take the following factors into consideration:

1. *Regional representability and distribution.* Companies with registered location in Budapest, the capital make up almost 30 per cent of the total number of enterprises selected for interviews. This can be explained by the specific features of Hungarian industrial and settlement structures. While only 20 per cent of the total population live in the capital, 30 per cent of the total possible eligible enterprises operate in Budapest.

2. *Form of management.* Only legal entities could be selected in connection with the support system of PHARE.

3. *Types of activity.* We took as basis the national industrial sector of the economic activities, the system of technologies responsible for producing

hazardous wastes and technical competence. We reached consensus with Mr. Árpád Bakonyi, representative of the Ministry of Industry concerning the types of activities.

4. *Number of employees.* In the restructuring, thus constantly changing phase of Hungarian economy, production data and figures are not yet readily available or are not disclosed for reasons of business secrecy. Therefore, the "size" of the enterprises is not always easily specifiable. For purposes of classification we used the following three categories:

- I. small business under 50 employees,
- II. medium-size firms between 51–300 employees and
- III. large companies over 300 employees.

Using method (a) of selection (i.e. based on technical competence and information) we chose 104 companies and asked them for interviews. However, only 69 of them (66 per cent) submitted project proposals. Having analyzed and evaluated them we found 43 to have met the requirements of the original PHARE call for tender.

The picture looks far less favorable in the case of method (b) of selection, i.e. the statistical method. Only 24 companies out of the 160 pre-selected (15 per cent) submitted application proposals. The most likely reason for this is that there are a lot of companies under transformation which just cannot pay attention to the questions of environment protection. It is also worth noting that we did not select any company under liquidation.

5. Points of view for project evaluation

26 proposals out of the submitted total of 93 either did not meet the technical and formal requirements or actually suggested a degree of background business instability which prevented us from seeing their sincere and well-founded intention of investment. The adequate 67 project proposals were evaluated by a formerly prepared and simplified assessment system.

The range of questions. The questions asked in the course of the interviews were closely related to the PHARE guidelines. They contained the major figures concerning the interviewed company (type of activity, production and employment figures, economic background), their development and transformation plans. Further questions concerned the description of the planned investments to promote environment protection, the technology, implementation costs, modes of financing and the scheduling of financing and implementation.

The answers to the questions provided the evaluators with an appropriate information of what company strategies and concrete investment plans the applying companies actually had and whether possible future aids promise effective utilizability.

Results. The investment projects were classified in five categories according to priority considerations. For lack of space, the detailed assessment figures of the five categories are not given in the present study. However, a summery of the evaluation of the project proposals is to be found in *Table 1*. which shows the results broken down to categories and total scores.

Table 1
Summary of the evaluation of proposed projects

Examined categories	Distribution of projects according to total of points					Number of projects
	21	23	25	27	29	
I. VOC, CFC	1	2	2	2	1	8
II. TRAFFIC	5	3	1	1	–	10
III. WASTES	13	2	4	3	–	22
IV. WATER	13	1	3	1	–	18
V. OTHER	5	4	–	–	–	9
TOTAL	37	12	10	7	1	67

The table shows that there were 30 project proposals which exceeded the total of 21 points and thus were considered average or better. 18 project proposals exceeded average and were considered "good" with 25–29 points.

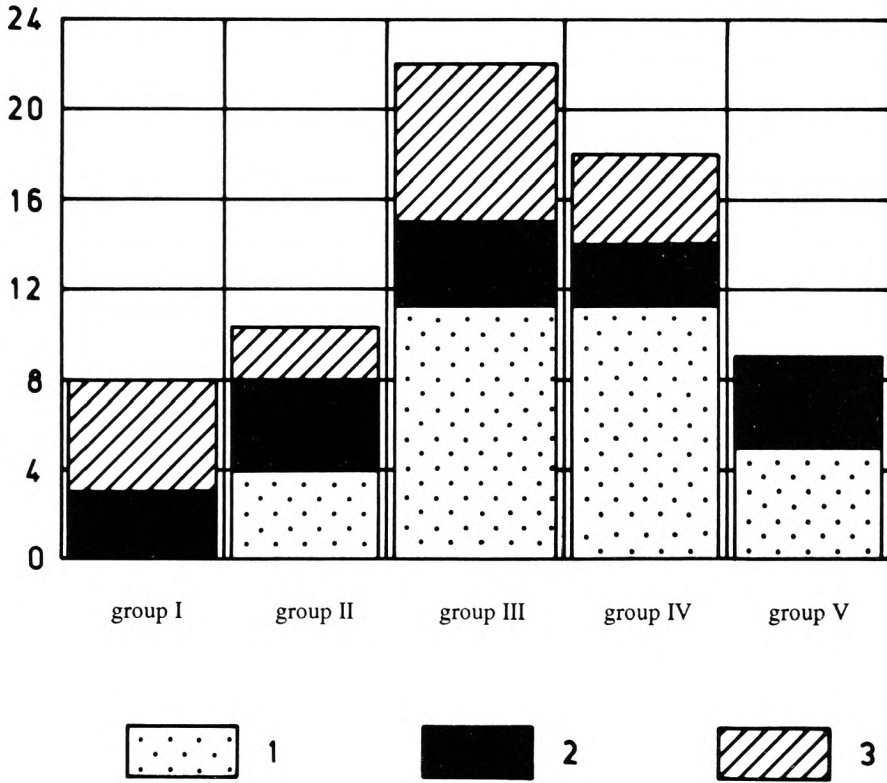
The distribution of the project proposals according to categories and achieved points can be seen on *Figure 2*.

On the basis of the results of the evaluation the followings can be stated.

Most of the proposals submitted addressed the problems of waste management and water protection. These two categories represent 60 per cent of the total number of proposals (40 proposals out of 67). Those a bit better than average and the 18 "good" ones show a fairly wide distribution across categories.

Out of the 8 projects aiming at the reduction of VOC and CFC emissions 5 achieved the 25–29 score bracket. It reflects that producers and servicing companies of this rather narrow business line possess well-established conceptions.

Figure 2
Distribution of projects by groups, as a function of scores



Key: 1 – less than 21; 2 – between 21 and 23; 3 – equal to and more than 25.

- Group I Reduction of VOC and CFC emissions;
- Group II Reduction of emissions from transport;
- Group III Solid and hazardous waste management;
- Group IV Protection of the water base;
- Group V Other projects.

Only 7 enterprises from among the great number of waste producers submitted project proposals that actually suited PHARE requirements. Its reasons need further analysis because the unsolved problem of waste is a typical symptom of the environmental crisis in Eastern Europe.

4 proposals on the topic of water resources protection and 2 on the reduction of emissions from transport scored better than average, so they deserve good attention in the future.

None of the 9 proposals classified in the additional category V. reached 25 or more points.

Our evaluation shows that 10 proposals were "average" and another 8 were "good". From among the "good" ones, 3 proposals were of category I., 1 of category II., 3 of category III. and 1 of category IV. These results confirm that the tender succeeded in finding well-founded and strong applications in each priority category specified by PHARE. These proposals are good enough to be potentially eligible for implementation support.

The results of our survey activity and pre-selection assignment show that the Reallocation Study has been successful inasmuch it has been able to collect one or more projects for each prioritized category which deserve support for their implementation.

The total sum of the planned investments for environmental protection of the 18 projects amounts to 9,133 million HUF (87 million ECU) and that of the 8 "good" ones amounts to 1,663 million HUF (16 million ECU). The financial assistance requested/specified in the PHARE Program is 1,245 million HUF (12 million ECU) for the 18 projects and 445 million HUF (4,3 million ECU) for the 8 "good" ones.

Table 2.

Total costs of the projects proposed for PHARE financial assistance

Examined categories	Mio HUF/ Mio ECU			
	Cost of the 18 Total	Projects PHARE	Cost of the 8 Total	Projects PHARE
I.	360	119	312	105
II.	438	151	218	65
III.	6,480	596	1,106	266
IV.	1,835	379	27	9
Sum total: HUF	9,113	1,245	1,663	445
Sum total: ECU	87	12	16	4,2

Note: 1 ECU = 105 HUF

6. Conclusions

While the Reallocation Study provided the necessary frame-conditions for the realization of a West European financial assistance called PHARE, it also threw light on critical points which, especially in Eastern Europe, may represent major difficulties in the attempts to find break-through solutions to the ecological crisis.

In this part of Europe each region of ecological crisis also suffers severe socio-economic crises. In some places the situation is made even worse by the constant threat of political instability. The chance of a successful economic management of the environment protection lies in the change of economic structure in this big region of Europe. Here, however, we face a vicious circle: the active capital necessary for the change of economic structure is extremely cautious in the depression-ridden regions where capital is scarce and the risks are high.

At the same time, the profit-lust of the so-called "venturing capital" – which is at the brink of being tolerated by the market economies – facilitates and promotes the relocation of high waste producing and environment polluting companies from Western Europe to Eastern Europe or actually ships hazardous wastes to eastern countries. The local authorities – under pressure of economic difficulties and lack of fundings – not infrequently accept short-term profits in return for the deployment of hazardous wastes in their grounds, thus deepening the overall ecological burden.

Taking current East European experiences into consideration, it seems that there is but a limited chance of a break-through solution to the ecological crisis in the region and there are hardly any tangible points that would promise signs of success. But even so, responsible crisis management must start with the few showing possibilities and introduce environment protecting new technologies even if they are extremely expensive and even if they require a high level of infrastructural development. If there are no other solutions, the big polluting enterprises will have to go. Although such moves would only add to the existing social tensions, these tensions should never be lessened at the expense of ecological deterioration and victimization.

RESTRUCTURING OF HUNGARIAN INDUSTRY AND ITS REGIONAL EFFECTS

BARTKE, István

The change of the political regime having occurred within a relatively short time – in the "European ex-socialist countries" at the turn of the 1980s and 1990s – presupposes and involves a change of the economic model which would last for a much longer period. The more or less uniform transition process from the planned economy to the market economy partly preceded and partly follows the political transformation. A typical example of this is Hungary where the penetration of certain elements of market control into the economy started already in the late 1960s, albeit their functioning was restricted to a narrow space by the ideology-riddled practice of the planned economy. Their appearance, however, was not only a formal alienation from the definitely inflexible economic system of the 1950s. But with regard to some principal conditions of the market economy (e.g. the ownership relations) a qualitative change could occur only within the new political framework, while the lion's share of the economic transformation still remained the task of the future. The task being simple and non-recurrent, an economy afflicted with periodic crises had to be set on a new growth path and the formal structure had to be broken down to give way to the construction of the new. This process is extremely painful for the society: it rearranges the relationship of interests giving rise to significant tensions between the different social groups.

With regard to its *external characteristics* during the past few decades, the Hungarian industry has developed in a way similar to that of the highly developed market economies. Its social significance is shown by the fact that in 1985, it produced 59.5% of the GDP and 47.2% of the national income. Of all the employees, the number of the industrial employees grew continuously until 1975, and since then the share of the industry has indicated a tendency to decrease, to the advantage of the tertiary sector. Hungary joined the ranks of the highly developed countries in this respect, too.¹

At the same time, concerning the qualitative indicators, especially those of the characteristics of the industrial structure, the picture is significantly different, in the best case mixed, but unfavorable in general. Under the planned economy, the industrial structure was built from top to bottom. The

process was governed by the central governmental organs of economy and industry by means of the exploitation of the possibilities provided by the redistributive mechanism. The centralization of income and its redistribution within the budget provided the structure-forming central will with a sound financial background which often crystallized around the development strategies envisaged by the mechanism of the planned economy, often departing from economic rationality, but always adjusting itself to the imperative "external" circumstances (commitments to the COMECON countries, etc.). All this – together with the ideological considerations – set a definite course for the development of the economic macrostructure and of the industrial sectoral (micro)structure. In relation to the forming of the product-structure at the very end of the series of processes, the enterprise management and the collectives had a say only to a narrow extent, within the possibilities provided, while the centrally regulated interest relations encouraged the implementation of the central will, at best its "creative improvement".

For Hungary with its narrow domestic market, the control of the world market over the industrial structure might have ensured a relatively undisturbed long-term development. The lack of an organic connection with the international division of labor, the distorting impact of the one-sided international orientation was strengthened until the 1970s, with the tightening of the qualitative requirements hardly rendering only a positive – if any – impulse even indirectly through central administration in the adjustment of the industrial product structure to the world market. In addition to the construction from top to bottom, the interest relations, having been distorted by the dominance of state ownership, obtained a key role in the increasing lagging behind. Thus, an inevitable consequence of the peculiar development of the past few decades is that the ossified industrial structure has become unable to adjust itself to the requirements of higher quality as well as to radically transform "the system of external conditions" (disintegration of the COMECON, the narrowing of the eastern markets), and the result is a break in development.

The answer to the question of what is to be done in a case like this is theoretically simple and logical: the former development path is to be replaced by construction from bottom to top, the conditions for the start of such a shift and an industrial structure allowing for an organic joining with the international division of labor have to be created by means of the "self-movement" of the economy. For this, the first step to be taken is to break down the obsolete structure and take care of its long-range elements, to free resources from the sectors which utilize them to an insufficient extent as compared to the general conditions of the economy. At the same time, the

conditions required for the construction of the new industrial structure have to be created, the reform of ownership has to be implemented, business ventures have to be encouraged, and in connection with administration the role of the state in governing this process has to be defined.

Thus, the restructuring of industry is a contradictory, complicated and sovereign process requiring a long time and a burdening of society. The industrial form comes into being upon the general impact of the efforts made by independent businessmen, and as a formation shaped from the bottom, is exposed to the judgement of the market in its elements, and is likely to have stability in the future. In the course of construction, it will be decided on what level the Hungarian industry – with its new structure – will join in the international division of labor, what prospects it will have for becoming a member of the European integration. Until then, however, the path will be thorny. Following the breaking down or reduction of the old industrial structure, there will be a large-scale liberation of the resources which do not immediately become elements of the new structure, sometimes only after a long period from time to time. If the breaking down of the old and the formation of the new are realized in logical succession, not simultaneously in concurrence, unemployment may become large-scale, socio-political tension may arise, jeopardizing perhaps even the democratic form of the state. The process of restructuring is accompanied by the loss of the majority of the resources (such as expertise, invested capital, etc.).

There are various well-known methods of moderating the unfavorable effects, the adoption of these, on the other hand, may often clash with the scarcity of resources. Restructuring may gain an impulse, e.g., by means of the stimulation of the entrepreneurial spirit, which may result in and lead to the moderation of the tax burdens and inflation (ERDŐS, T. 1992). The chronic budget deficit, however, works against both tendencies, and moderation of the role undertaken by the state in social welfare would increase the social tensions. Another source of contradiction delaying the restructuring is the fact that, on account of the decline of production and the pressure of the debt servicing, it cannot produce the financial funds required for the scheduled realization of this process by itself.

Having demonstrated the restructuring task of the Hungarian industry, which is burdened with complicated and unexpected obstacles, now let us give the outlines of the antecedents, the initial conditions, and then after utilizing the possibilities inherent in the rather insufficient statistical background, we shall attempt to outline the path of the 1990s and analyze the regional effects of the reconstruction of the industrial structure.

1. A few structural properties of Hungarian industry before restructuring

This essay explores and analyzes the restructuring of Hungarian industry on the basis of the processes of the second half of the 1980s. Between the beginning and concluding years of this half decade, the world political changes have matured and as such have affected Hungary, which was an active participant, too. The position of the planned economy which had seemed to be stable and invincible in 1985 collapsed by the 1990s. It is still an open question to what extent the total defeat of the centrally planned management and its early elimination on account of the political changes will contribute to the promotion of economic restructuring, the breaking down of the old structure, but it is not the task of this paper to deliberate this issue.

Our point of departure is that during the half decade examined, the pressing moments, such as the reduction in the subsidization of the loss-making enterprises, enhancement of the elements of market control, the drastic decline of the absorptive capacity of the ex-socialist, eastern market, etc. strengthened.

An international comparison of the sectoral structure of the Hungarian industry at the end of the 1970s can be seen in *Table 1*.

Table 1
Sectoral distribution of GDP (%) between sectoral groups

Sectoral group	Highly developed western countries	Hungary	All countries
Mining	6.2	10.8	13.1
Electricity industry	7.2	5.2	5.8
Metallurgy	6.6	7.3	6.2
Engineering industry	33.7	28.2	30.5
Building materials industry	3.6	5.3	4.0
Chemical industry	12.7	10.3	11.7
Light industry	17.6	16.9	16.3
Other industries	1.4	4.6	1.6
Food industry	10.6	11.4	10.8
Industry altogether	100.0	100.0	100.0

Sources: ROMÁN, Z. 1981.

The published data is not suitable for drawing far-reaching conclusions, yet it shows that within Hungarian industry relatively low shares are represented by the electricity, engineering and chemical industries, while an over representation share of metallurgy, building materials and food industries is indicated. The positive differences can be accounted for only partly by the peculiar endowments of the country (namely in the case of the food industry). In the case of metallurgy, however, the impact of the "socialist industrialization", which gave precedence to ideological considerations, can be seen. Here and now, we only refer to the fact that the high share of metallurgy and food industry affected the overall output of industry unfavorably, because the efficiency of the above mentioned sectors showed lower levels already in the first half of the 1980s. On the other hand, the sectors relatively lagging behind belonged to the group with high efficiency, therefore the relatively low share of these also deteriorated the industrial output.

The sectoral restructuring of industry between 1975 and 1985 was characterized by the tendencies as shown by the data in *Table 2*.

Table 2

Distribution of the gross industrial production (%) among the sectoral groups

Sectoral group	1975	1980	1985
Mining	4.2	3.6	5.7
Electricity industry	3.1	3.5	4.5
Metallurgy	10.0	9.1	9.0
Engineering industry	27.0	26.7	24.6
Building materials industry	3.1	3.2	3.0
Chemical industry	14.5	17.0	19.5
Light industry	17.4	16.3	13.5
Other industries	1.6	1.7	1.3
Food industry	19.1	18.9	18.9
Industry altogether	100.0	100.0	100.0

Source: Statistical Year-book, 1975, 1980, 1985.

In the second half of the 1970s, the sectoral structure of the Hungarian industry shifted towards the industrial structure of the highly developed western countries. In industrial production, there was a decrease in the share of mining, metallurgy and the food industry, while there was an increase in that of the electricity and chemical industries. Already at this time it became

explicit that the engineering industry was losing ground, although its share had been relatively low within production even before. The unfavorable tendencies strengthened in the first half of the 1980s. This was connected with the halt of the industrial development, the slow-down of its growth after the late 1970s. This tendency is indicated also by the fact that there was a recurrent strengthening of the position of mining, with the engineering industry increasingly losing ground. (We have to note that the data in Tables 1 and 2 are incomparable, since in Table 1 the sectoral structure is described in terms of the GDP, while in Table 2 in terms of gross output distribution).

Although the comparative and dynamic analysis of the Hungarian industry based on quantitative indicators refers to both favorable and unfavorable tendencies, it is not suitable by itself for the evaluation of the performances of the branches of the national economy which are related to the structural build-up. More precise possibilities of analysis are provided by certain qualitative characteristics (productivity, efficiency) in the background of which the product (micro-) structure of the industry can be found.

In the "socialist industrialization" process, industrial capacity was multiplied as compared to the former period. The relative balance of the sectoral structure – which was not free of anomalies either – came into conflict with the deficiencies of the product structure, which became particularly acute after the change of the world economic system (1973), the main reason being that the transition to a more intensive growth pattern did not take place. The planned economy had more or less utilized the productivity resources hidden in the extensive development of the industry, but because of its objective limits it was unable to create the conditions necessary for the progressive transformation of the product structure. By the 1970s, the relative lagging behind of productivity had become the chief problem of the Hungarian industry, which, was above average in mining, metallurgy, and the electricity industry, as well as in some engineering and chemical sectors, but somewhat below average in the textile, clothing and food industries. In 1970, a survey was made concerning 400 Hungarian industrial enterprises the result of which showed that one-fifth of the enterprises in the processing industry qualified as reaching the world standard (ROMAN, Z. 1981).

A more plastic picture can be obtained if we examine the efficiency of the industry with regard to labor/productivity (performance per employee per working hour), on the basis of how the resources in the individual industrial sectoral groups were utilized. The results obtained in this manner are suitable for international comparison only with some restrictions, showing at the same time the relative differences of performances and income-producing ability (Table 3).

*Table 3**Indicators of relative efficiency in the sectoral groups of industry in 1985
(absolute values in billion Ft-s)*

Sectoral group	Actual GDP in the industry	Adjusted GDP in the industry	Efficiency indicators
Mining	58.63	34.47	1.700
Electricity industry	19.48	33.77	0.577
Metallurgy	10.31	25.94	0.397
Engineering industry	104.33	80.54	1.295
Building materials industry	13.90	16.71	0.832
Chemical industry	49.06	38.96	1.259
Light industry	46.71	47.59	0.982
Other industries	5.43	4.76	1.141
Food industry	15.68	40.79	0.384
Industry altogether	323.53	323.53	1.000

Source: Statistical Year-book 1985 and own calculations.

Taking 1,000 as the average efficiency of Hungarian industry, the sectoral values show a significant dispersion around it. Although the sectoral groups are quite large aggregates which embrace significantly different industrial activities, the characteristic tendencies are still reflected well at this level. On the other hand, particularly noteworthy is the relatively low efficiency of metallurgy and the food industry and the favorable indicators of the engineering and chemical industries. It is to be noted that behind the high value of mining sharply contrasting tendencies are hidden, from among which the average efficiency of the coal mining and the average efficiency of the oil and gas production should be pointed out. The efficiency indicators summarize the intersectoral differences in terms of the production costs, sales prices and possibilities, etc. These are rooted in the product and technological structure being able to adjust themselves more or less to the market conditions and interact with the production costs.

The differing efficiency and income-producing ability of the industrial sectors exercise a demonstrable influence on the economic standard of certain spaces: the living conditions of their population through the industrial structure of the various regions. From another perspective, the efficiency of the individual industrial sectors is synthesized from the effectiveness of the work done by the companies in various fields of the individual industrial sectors. The interaction is very close. The findings of earlier research

(BARTKE, I. 1987) show that, on the basis of the industrial structure of the various regions and the national efficiency of the individual sectors, one can safely draw conclusions with regard to the efficiency of the industry operating in the various regions of the country and the regional dispersion of the crisis which afflicts certain branches of industry. At the same time, the spatial response to be given to the radical change of the external circumstances (revealed in the form of crises) and the relative magnitude of the unfavorable social consequences greatly depends upon the flexibility of the industrial product and technological structure of the affected spaces and adaptability to the new conditions.

Table 4 shows the sectoral-regional structure of Hungarian industry on the basis of the number of people employed in industry in 1985. The regional units (counties, the capital) are grouped according to the parts of the country (central region, Northern- and Southern Transdanubia, Northern Hungary, the northern and southern parts of the Great Hungarian Plain). Taking into account the sectoral industrial structure of certain regions and the sectoral efficiency of national industry in 1985, the depression-prone zones can be outlined as follows:

Metallurgy with its extremely low efficiency had a great share in the industrial structure of Northern Hungary above all (chiefly in Borsod-Abaúj-Zemplén). Moreover, it had a relatively outstanding share in Fejér county, too, constituting one-fourth of all the industrial employees. On the other hand, the large ironworks of Fejér county (in Dunaújváros) was established after World War II, which is a significant distinctive feature with respect to the technological standard as opposed to the factories of Borsod (Miskolc, Ózd) in a similar production line but with older and neglected technology. The former have better chances for adjustment, which may avert the risk of crisis in this region. Within mining, of coal mining had an efficiency well below the average, mainly on account of the unfavorable natural conditions of exploitation, which made the transformation of the industrial structure imperative in Northern Hungary as well as in Komárom, Veszprém and Baranya counties. (In the latter places other branches of mining, such as ore mining, etc., also got an unfavorable rating). The least efficient sectoral group in 1985 was the food industry with a smaller relative regional concentration in comparison with the former industries, but affecting a greater part of the country. The latter sectoral group destroyed industrial efficiency mainly in the Great Hungarian Plain and in Southern Transdanubia, extending the risk of a potential crisis to these places, too.

Table 4

The sectoral-regional structure of industry

County, capital	Share (%) in the number of labor employed in the "socialist industry"						
	Mining	Metal- lurgy	Engineering industry	Chemical industry	Light industry	Food	Other branches
Budapest	1.2	3.9	45.9	10.0	22.5	8.0	8.5
Pest	1.2	—	43.3	10.8	20.0	13.0	11.7
Fejér	12.0	23.0	35.9	1.4	12.6	9.8	5.3
Győr-Sopron	—	3.5	36.8	1.6	35.9	16.5	5.7
Komárom	34.1	4.2	18.5	11.4	10.9	7.0	13.9
Vas	—	—	25.4	6.9	43.4	14.7	9.6
Veszprém	21.1	6.9	19.7	18.0	11.8	8.4	14.1
Baranya	32.0	1.0	11.2	3.1	26.4	26.7	10.4
Somogy	0.1	—	35.5	0.9	26.4	26.7	10.4
Tolna	1.5	—	23.7	3.0	33.4	20.1	18.3
Zala	8.9	—	33.0	5.7	24.1	16.9	11.4
Borsod-Abaúj- Zemplén	13.7	25.3	15.2	12.1	12.7	9.5	11.5
Heves	17.3	3.0	32.8	2.2	13.9	17.7	13.1
Nógrád	14.9	10.5	28.3	0.5	18.5	6.2	21.1
Hajdú-Bihar	1.4	0.2	38.6	7.6	26.7	19.3	6.2
Szabolcs- Szatmár	—	2.0	26.5	11.8	26.5	20.9	12.3
Szolnok	2.9	—	38.3	4.5	30.4	15.5	8.4
Bács-Kiskun	2.0	1.0	33.4	3.0	30.8	23.4	6.4
Békés	2.6	0.4	24.3	1.0	34.5	24.3	12.9
Csongrád	4.3	2.0	24.0	5.0	36.5	17.5	10.7
National total	7.7	5.7	32.2	7.4	23.5	13.4	10.1

Source: Regional Statistical Year-book 1985 and own calculations.

The unfavorable rating of coal-mining and partly of iron metallurgy – on account of the above mentioned causes – is a phenomenon of long-standing history as opposed to the food industry, the efficiency of which showed a declining tendency from the 1970s mainly as a result of the tightening of the international selling conditions, with discrimination by the Common Market included among them. The fact that the structural renewal and industrial reconstruction of the traditional areas including large-scale coal-mining and iron-melting had been pushed into the background became obvious already in the period of dynamic industrial growth (BARTKE, I. 1972), yet the economic policy advocating extensive development of the industry gave preference to the establishment of new plants and the industrialization of the underdeveloped regions in a one-sided manner. Thus, while there were results in certain respects, the industrial structure of the provincial heavy industrial areas became obsolete once and for all and extremely vulnerable to changes in the external conditions.

2. Transformation processes of the industrial structure between 1985 and 1990

In the second half of the 1980s, transition to the market economy accelerated. The autonomy of industrial enterprises was enhanced, the centralization of depreciation was abolished, within the production costs the proportion of the wage-costs and (tax-)reductions proportional to live labor increased with the introduction of personal income taxation, the subsidization of loss-making enterprises was reduced, etc. In addition to the modifications of the economic management system, "external" conditions continued to tighten: the socialist market narrowed, living standards were reduced and production resulted in the atrophying of the domestic market, etc.⁴ As a result of all this additional industrial sectors entered a critical situation and special methods of crisis management came into being.

Between 1985 and 1990, the nominal value of the industrial production increased about 1.5 times. The increase in the price level, however, exceeded this rate and a quantitative decrease in production followed (*Table 5*). The rate of depression was different from branch to branch: the sharpest decline occurred in mining (in addition to other industries of insignificant magnitude), while the production volume of metallurgy also decreased at a rate faster than the average. Even this structural change, which can be considered to be positive, was full of contradictions, since the price index in metallurgy overcompensated for the quantitative decrease, therefore (on the basis of the value index) the productions in this branch continued to grow in the industrial

structure. The high price index(es) of 1989 (and 1990) suggest(s) a kind of boom, which raised the relative efficiency of metallurgy to a great extent (most likely only temporarily), lessening the momentary burdens of restructuring. At the same time, it is an unfavorable characteristic that the production in the formerly very efficient engineering and chemical industries decreased on the basis of the value index, albeit the latter branch increased its quantitative share (at a relatively low price index). It is a noteworthy phenomenon that production in the food industry remained at the same level quantitatively and the relatively high price index accompanying it strengthened the position of this branch in the industrial structure. The position of the electricity industry improved by means of both volume growth and price change; in the case of the building materials industry, the impact of the quantitative development is stronger.

Table 5
Changes in the gross production of industry according
to the main sectoral groups

(at current prices, billion Ft-s, %)

Sectoral group	Absolute		Absolute		Value	Price	Volume
	number	%	number	%	index	index	index
	1985		1990		1990	1990	1990
					1985	1985	1985
					%	%	%
Mining	94.35	7.3	108.39	5.6	114.9	147.4	78.0
Electricity industry	72.57	5.6	133.49	6.9	183.9	166.3	110.6
Metallurgy	105.70	8.2	184.71	9.6	174.7	187.6	93.1
Engineering industry	312.52	24.3	418.95	21.7	134.1	142.7	94.0
Building materials industry	39.65	3.1	64.57	3.3	162.8	153.2	106.3
Chemical industry	267.95	20.8	383.77	19.9	143.2	141.9	100.9
Light industry	167.73	12.9	233.92	12.1	141.1	155.9	90.5
Other industries	12.90	1.0	12.86	0.7	99.6	152.3	65.4
Food industry	216.52	16.8	387.20	20.2	178.8	178.5	100.2
Industry altogether	1287.89	100.0	1927.86	100.0	149.7	155.8	96.1

Source: Statistical and Hungarian Statistical Year-books, 1985 and 1990 and own calculations.

Table 6

Producer price indexes in industry according to the main sectoral groups

(Previous year=100)

Sectoral group	1986	1987	1988	1989	1990	1986–1990 altogether
Mining	100.7	102.1	102.3	107.3	130.6	147.4
Electricity industry	108.6	108.5	112.5	102.6	122.2	166.3
Metallurgy	102.9	104.5	110.2	127.5	121.0	187.6
Engineering industry	105.8	104.1	100.5	113.8	113.3	142.7
Building materials industry	105.5	103.4	100.8	112.9	123.4	153.2
Chemical industry	93.6	98.7	106.4	115.6	124.9	141.9
Light industry	104.1	104.9	103.8	115.2	119.4	155.9
Other industries	103.5	106.6	105.0	119.0	130.4	178.5
Food industry	102.9	105.3	105.9	119.3	130.4	178.5
Industry altogether	102.1	103.5	104.7	115.4	122.0	155.8

Source: Hungarian Statistical Year-book 1990 and own calculations.

The half decade examined was not homogeneous with respect to the sectoral transformation of the industry. The transformation processes accelerated after 1988 in particular: it is possible to reach this, conclusion also on the basis of producer price indexes, but it becomes even more obvious on the basis of the information provided in Table 7. According to this the volume of the industrial production decreased by about 10%. With regard to the individual sectoral groups, the outstanding quantitative development of the electrical energy producing industry was striking (mainly due to the impact of the production capacity expansion and the good sales possibilities of the Paks Power Station); the others clearly show a decline. In one approximation the intensity of the structural transformation is represented by the relative differences of dynamics. According to this, (in addition to the electric energy industry) the food, building materials and chemical industries strengthened their positions. On the whole, the change can be regarded as the structural reduction of the Hungarian industry having started from 1989, in which process a particularly unfavorable element is the engineering industry, which used to be a decisive structure-forming branch with its earlier high efficiency and share of production losing ground.

The formation of sectoral efficiency – since with regard to the whole of the industry it decreased also as compared to itself – shows that the qualitative positions of the Hungarian industry greatly deteriorated between 1985 and 1990. In a sectoral investigation, however, the picture is varied;

Table 7

*Changes in the gross production of industry between 1988 and 1990
according to the main sectoral groups*

(at current prices, in billion Ft-s)

Sectoral group	1988	1990	1990/1988	Price index	Volume index
				1990/1988	1990/1988
			%	%	%
Mining	101.16	108.39	107.1	140.1	76.4
Electricity industry	101.22	133.49	131.9	125.4	105.2
Metallurgy	135.38	184.71	136.4	154.3	88.4
Engineering industry	379.06	418.95	110.5	128.9	85.7
Building materials industry	48.03	64.57	134.4	139.3	96.5
Chemical industry	285.12	383.77	134.6	144.4	93.2
Light industry	194.08	233.92	120.5	137.5	87.6
Other industries	12.90	12.86	99.7	131.5	75.8
Food industry	251.86	387.20	153.7	155.6	98.8
Industry altogether	1508.81	1927.86	127.8	140.8	90.8

Source: Statistical Year-book 1988 and Hungarian Statistical Year-book 1990 and own calculations.

Table 8

Changes in the sectoral efficiency of industry between 1985 and 1990

Sectoral group	Efficiency index		Index	Price index
	1985	1990	1990/1985	1990/1985
	%	%	%	%
Mining	1.700	1.311	77.1	147.4
Electricity industry	0.577	1.257	217.9	166.3
Metallurgy	0.397	0.958	241.3	187.6
Engineering industry	1.295	0.816	63.0	142.7
Building materials industry	0.832	0.811	97.5	153.2
Chemical industry	1.259	1.265	100.5	141.9
Light industry	0.982	0.847	96.3	155.9
Other industries	1.141	0.878	77.0	152.3
Food industry	0.384	0.633	164.8	178.5
Industry altogether	1.00	0.942	94.2	155.8

Source: Statistical Year-book 1985 and Hungarian Statistical Year-book 1990 and own calculations.

branches both catching up with and lagging behind the national average level can be found. In addition to the effects of the modification of the economic mechanism and other external conditions, the trends of change also indicate the endeavors of individual branches to ease their critical situation. Changes in the sectoral efficiency of the industry are shown in Table 8. From among the tendencies revealed, the vigorous improvement in metallurgy and the food industry, and the decline of efficiency in the engineering industry and partly in that of the light industry deserve attention above all.

In the significant enhancement of the efficiency of metallurgy both the system of favorable market conditions and intra-sectoral rationalization played a role. The former is supported by the fact that an increasing share of the metallurgical products was sold in western markets (in 1988, 20.7%; in 1989, 26.8%; and in 1990, 32.3% of the total sales) under favorable price conditions. A result of the internal "rationalization" and an efficiency enhancing factor was also the fact that the labor productivity of the branch grew above average by means of a 25% reduction in the number of employees (as opposed to the industrial average of a 14–15% reduction). The reduction of production and the cutting down of the work force is a kind of negative response to the critical situation. In the case of the food industry, neither the reduction of production, nor the cutting back of the work force was required on account of the relative stability of the domestic market and the inflexibility of the demand for food production (during the investigated period, both remained practically at the same level). In this branch, the source of efficiency enhancement was the rise of prices far beyond the average, the shifting of most of the burdens of the sectoral crisis onto the population, as a result of which the food industry could stabilize its activity temporarily. An increase in the share of the western trade was also significant in the sales of the food products (between 1988 and 1990, it rose from 11% to 18%), its relative weight, however, fell behind that of the metallurgical products. Between 1985 and 1990, the position of the "classically" critical branch, mining without the exploitation of hydrocarbons, further deteriorated in terms of production and the cutting down of the work force as well as efficiency. Behind the significant decrease in the efficiency of the engineering industry was the narrowing of the eastern market.

Table 9

Sectoral – regional structure of industry (1990)

County, capital	Share of the number of industrial employees (%)						
	Mining	Metal- lurgy	Engineering industry	Chemical industry	Light industry	Food	Other branches
Budapest	0.8	3.9	45.7	12.0	20.5	9.2	7.9
Pest	0.9	0.4	46.5	13.4	15.7	14.8	8.3
Fejér	10.0	23.8	36.1	2.5	12.3	10.3	5.0
Győr-Moson- Sopron	–	3.6	35.0	2.6	34.3	18.4	6.1
Komárom- Esztergom	23.9	5.2	21.3	14.1	12.0	8.5	15.0
Vas	–	–	25.0	7.5	42.5	17.2	7.8
Veszprém	19.1	7.5	20.3	15.4	12.8	9.8	15.1
Baranya	25.9	1.0	12.5	3.1	26.3	18.1	13.1
Somogy	0.4	0.7	35.8	2.8	25.2	25.9	9.2
Tolna	1.3	0.7	24.2	3.4	31.9	20.1	18.4
Zala	8.2	–	32.2	6.2	23.2	18.2	12.0
Borsod-Abaúj- Zemplén	11.3	16.1	19.9	15.0	12.3	11.2	14.2
Heves	14.4	3.1	34.1	3.3	11.3	18.9	14.9
Nógrád	7.0	11.4	32.6	0.9	19.3	7.3	21.5
Hajdú-Bihar	2.1	–	36.6	8.5	25.1	22.1	5.6
Szabolcs- Szatmár-Bereg	–	2.2	23.9	12.2	28.9	25.7	7.1
Jász-Nagykun- Szolnok	3.4	0.2	37.5	5.5	27.8	18.3	7.3
Bács-Kiskun	1.8	1.4	32.2	3.4	28.3	28.3	4.6
Békés	2.4	1.5	25.5	1.3	30.4	27.6	11.3
Csongrád	4.3	1.8	22.8	5.3	33.7	21.3	10.8
Hungary	6.1	5.0	32.9	8.5	22.1	15.5	9.9

Source: Regional Statistical Year-book 1990 and own calculations.

3. Changes in the sectoral–regional structure of Hungarian industry

Between 1985 and 1990, the sectoral restructuring of industry accelerated mainly in the crisis-prone areas. Table 9 shows the industrial structure of 1990 concerning the individual counties on the basis of the number of employees. In comparing this with the data contained in Table 4 (the structural condition in 1985), we can observe that on the national level the share of the food, chemical and engineering industries increased, while that of mining, metallurgy, light industry and the other branches decreased. Behind the nationally mitigated structural fluctuation, the remarkably great structural transformation of the counties was hidden.

Between 1985 and 1990, in Borsod-Abaúj-Zemplén county the share of (iron) metallurgy in all the industrial employees of the county fell by 9.2 percentage points. The structural weight of this branch was not significantly reduced in any county, moreover it showed a slight growth in most the places. The decline remained below 1 percentage point on the national level as well, which – together with other pieces of information – proves that the reduction of the low efficiency metallurgy in Borsod represented one of the sources of the outstanding efficiency improvement of this sectoral group. The former is supported by the fact that in Fejér county the production at the metallurgical base of Dunaújváros decreased altogether by 6% between 1985 and 1990, while at the same time the decline was over 40% in the Borsod region. This had, however, a very serious consequence for the latter region: metallurgy alone "discharged" 17,000 industrial employees, that is the jobs of 12% of the industrial employees ceased due to this rationalization. The former process was influenced by the structural pushing back of mining into the background (-2.4 percentage points) and work force liberalization (6,000 employees).

The engineering, chemical, food industries and other branches together, filling in the vacuum which had come into being in this way, hardly increased the number of employees; the overall change resulted in a large-scale, 17% decrease amounting to approximately 23,000 employees. Similar industrial restructuring processes were taking place by means of mining in Nógrád county, and to a lesser extent in Heves county, significant by losing ground which, in respect of the compensating factors, caused a 16–19% overall industrial decline. (On the national average, the industrial work force was reduced by 14.4%). The processes outlined above together with other factors aggravating the living conditions, such as the high proportion of agricultural plants with unfavorable circumstances, etc. made it necessary for the government to declare Northern Hungary a depression zone and special

measures had to be taken to promote the restructuring processes (preparation of a long-term concept, the adoption of special instruments, such as special funds, profit–tax allowances, long-range loans from the World Bank, etc.).

The application of the instruments mentioned above was extended to other regions which had been greatly affected by the shift in the industrial structure. Among these regions, Komárom-Esztergom county was conspicuous, where the share of mining decreased by more than 10 percentage points with an increase mainly in the weight of the engineering and chemical industries. Here restructuring was accompanied by a large-scale discharge of the industrial work force (the number of the industrial employees was reduced by more than one-fifth). In Baranya county restructuring had similar consequences, the main motive being the significant reduction of the weight of mining.

In addition to the instances mentioned above, remarkable restructuring occurred in Pest county, where the weight of the engineering and chemical industries greatly increased at the expense of the light industry and other branches, while in Szabolcs-Szatmár-Bereg county the same process partly had an opposite result (that is the proportion of the engineering industry decreased and that of the light industry, mainly of the food industry, greatly increased). Behind these changes (which were accompanied by industrial work force discharge below the average), better adaptation to the environmental conditions was hidden, rather than the reduction of the industrial structure.

Between 1985 and 1990, the significant reduction of the engineering industry and partly of the light industry is a new element of the crisis which accompanies the transition to the market economy (which chiefly can be traced back to the narrowing down of the former sales markets). Its territorial consequences – on account of lesser local concentration of the branches than in the case of the ones discussed earlier – will be more diversified regionally, and are likely to recur in the first half of the 1990s.

4. Conclusions

The restructuring of the Hungarian industry required and urged by the transition to the market economy promises to be a much more complex task, a longer and more painful process, than it was expected to be. Until 1990, it reached an initial stage, the breaking down of the old structure, however, was started without significant signs of the appearance of a new structure.

This breaking down process was delayed mainly by factors which can be regarded as temporary (a boom in the sales of metallurgical products, the

shifting of the crises upon the population which allowed for a rise in efficiency in some of the affected branches and was favorable because of the temporal spreading of the burdens imposed by the crises, its temporary mitigation), but on the other hand, it postponed and delayed the majority of the tasks of structural renewal. Further delay threatens a deepening of the structural crisis.

The structural crisis accompanying the transition to the market economy has afflicted the Hungarian industry in recurrent waves. In the first stage – under the impact of the measures taken still under the administration of the planned economy – the structural weaknesses, the lack of adaptation in the branches and enterprises having burdened the economy for decades (coal-mining, metallurgy) became obvious. The next wave of crisis was caused by the limits of the western markets in absorbing the products of the Hungarian food industry; and finally, the third wave is rooted in the collapse of the eastern market. For the crises afflicting the industrial branches to a varying degree and for their subsequent appearance and dispersion to certain regions, the objective, external conditions are responsible only to a lesser extent, while most of the responsibility lies in fact with the product and technological structure of the industry.

At the same time, industrial restructuring is impeded objectively by the unusual circumstances of the transition to the market economy (the lasting decline of the production, limits of the burdens that can be undertaken by the population, etc.). We should especially emphasize the scarcity of the resources of domestic accumulation and the depressing effect of the foreign debt burdens. Because of the former, the structural reconstruction of the Hungarian industry cannot be realized without external assistance, or only with considerable delay which threatens to cause Hungary to drop behind the international average level. A possible form of the required help is the influx of foreign capital and its participation in the privatization of the state-owned property. This capital, however, has strengthened its position mainly in the services, while the management of the critical branches – under more and more deteriorating financial conditions – fell to the state, which therefore could not withdraw from the economy at the pace dictated by the theoretical requirements.

Notes

1 In Hungary, the number of workers employed in the processing industry culminated with 33.1% as compared to the total number of the actual wage-earners in 1975. By way of comparison, a peak year in the USA was 1953 with 36.3%. Further examples: Holland in

1955 was 30.2%, the United Kingdom in 1955 was 35.9%, the Federal Republic of Germany in 1970 was 37.4%, Italy in 1974 was 32.6%, etc. (RAY, G. F. 1980).

- 2 The general method of the numerical definition of efficiency is to compare the returns with the expenditures (reduced to a common denominator). The calculation presented here is based on a certain improvement of the general method. In the denominator of the index number can be found the "expected" returns as justified on the basis of the work force and the capital expenditure instead of the expenditures, in this way the form of the index is made up of returns/adjusted returns. In the course of the actual calculation, the numerator included the actual national income realized in the industry, while the denominator contained its former adjusted value. The actual national income is a factual statistical figure; the composition of the adjusted index is the following according to the sectoral groups: paid out wages + social insurance benefit projected upon the former (50%) + the assets-proportional part of the net income (19.4% of the gross value of the fixed assets).

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FORMATION OF THE REGIONAL STRUCTURE OF TRAFFIC AND COMMUNICATIONS

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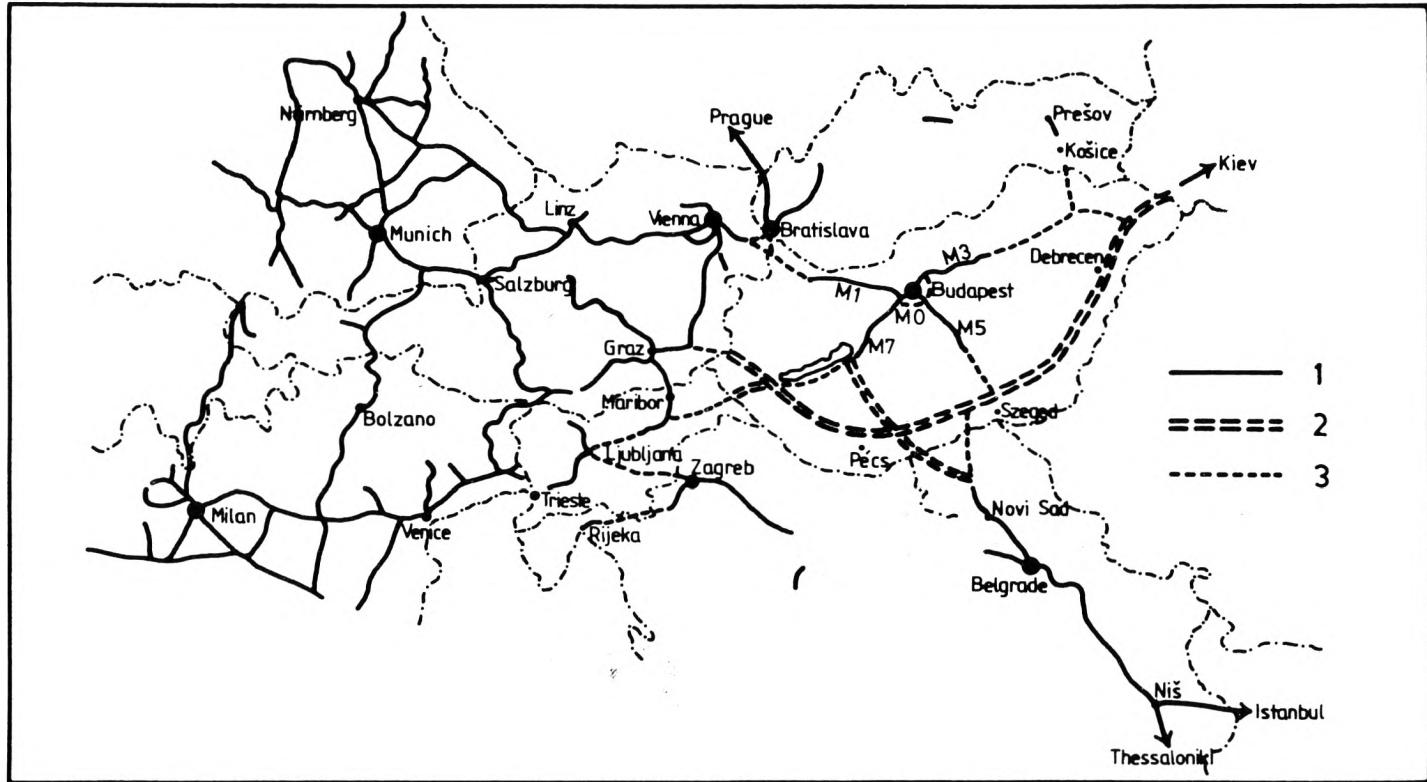
From the point of view of our topic, two essential characteristics of the economic transformation, only partially synchronized with the change of the political regime having started in the late eighties, are the transition to the market economy and the change of the orientation in the field of foreign trade.

With respect to the slow process of "marketization", the transformation of the forms of ownership, the process of "breaking down into small businesses", as well as in the market liberalization, more substantial changes can be expected than in the highly significant infrastructural network *which serves all-national interests*. Here, "marketization" is possibly only to a limited extent which still does not jeopardize the strategic interests of the state. In the future, the railway, the basic network of communications, and the postal delivery service will be state-owned unalterably. Privatization can be expected in bus transport and the local-small district activities (taxi service, local public transport, the distribution and sale of newspapers, the building up of telephone lines) and in the field of the recently introduced services (radiotelephone, data communication).

1. Changes in the international traffic relations

The transformation in Hungary is connected with the relationship between Eastern and Western Europe being placed on a new basis. As a result of this historically significant process, *the trans-European relationships will be realigned*, their direction and intensity will be modified. *The geopolitical and geographical transport situation of Hungary* (or rather the value of the former) *will change* with the promise of transition or permanence upon the impact of the international events, processes and the shifts of the main points of effort in traffic which are hardly, or only slightly within our control. Within the new-type "objective international framework," however, the *change* having occurred *in the orientation of our foreign trade*, or even the structure of our foreign trade is already largely the result of our foreign policy and foreign economic policy which give preference to the western countries.

Figure 1
The connection of the Hungarian motorways with the motorways of the neighboring countries



Key: 1 – existing motorways; 2 – the planned Southern Motorway and the Southern Transdanubian Motorway; 3 – the planned completion of other (radial) Hungarian motorways and their connection in the direction of the neighboring countries.

In the previous decades, the demands of Western Europe for establishing transcontinental connections of west-east direction with the Soviet Union, which was barred by the Iron Curtain, were fairly moderate. This situation has changed substantially today, the Soviet successor states are related by the strongest economic and cultural links precisely to the unified Germany and Western Europe. Therefore, the high-performance arterial roads (trunk roads, motorways) connecting it with Western and Eastern Europe via the German–Polish Plain (chiefly with the Minsk–Moscow economic-power centers) and the shipping lines of the Baltic Sea. Namely, the main point of the western-eastern transcontinental traffic is shifted to the rapidly developed international traffic corridor which lies several hundred miles from Hungary to the north. As a direct consequence of this process, the growth of traffic crossing Hungary in the west-east direction will not keep up with the former, and will stagnate in the long run.

In 1960–1970s, the Soviet Union paid special attention to the relationship with Italy out of political considerations. (Mainly in order to win over the Italian communist party with a high number of members.) This relationship is, however just as important for the CIS-countries. Accordingly, the significance of the east-western- and north-eastern traffic connecting Italy (and partly Southern France) with Ukraine and Russia through Hungary falls behind relative to the German–Polish–Byelorussian main corridor. Among the potential rivals we may have to face Slovakia, which can canalize part of the traffic between Italy, Austria, Switzerland, Bavaria on the one hand, and Moldavia, Ukraine, Byelorussia and Russia on the other hand; that is to say, we will have to share the traffic flowing through the Carpathian-basin in the southwest-northeast and west-east directions with our neighbor. Altogether, *Hungary is likely to play the subordinate role of an auxiliary scene in the trans-continental traffic.*

The total transit traffic of Hungary will be re-oriented spectacularly concerning its routes as well. Various factors may result in the further strengthening of the northwest-southeast traffic and in the weakening of the north-south traffic. After the opening of the high-performance transcontinental waterway, the Danube–Rhine–Main Channel in 1993, it may become a freight transport axis of outstanding significance between North-western and South-eastern Europe. (Unfortunately, Hungary has not given much evidence of diplomacy in the utilization of this favorable endowment). The explanation offered is often the shortage of capital and that's why partially nothing has been done for the "reception" of the new establishment; nothing is being done in the field of the construction of ports, harbors of transshipment, petrol stations, restaurants, hotels; furthermore, the fleets have not been developed either. The other factor is the disintegration of

Yugoslavia, the "Lebanonization" situation in the western parts of the Balkans, because of which most of the overland transport had to be diverted to the south-west direction, and even the air corridor had to be removed. The South Slavonic areas have lost their attraction for tourism. The third factor contributing to the strengthening of the northwest-southeast traffic is *Turkey*, which is turning into a regional economic and political power. It is linked closely to Western Europe (Germany above all), and in realizing this link finds the shortest way in the course of traffic through Hungary.

After the stabilization of the position of South Slavonic successor states, the normalization of their interrelations and the transit traffic of the north-south direction may become strong again. (Access to the sea-side resorts and freight ports). The main parties and interested agents are Poland, Czechoslovakia and Hungary. They may attract goods traffic, particularly from the direction of Czechoslovakia and Hungary, which do not have a sea.

The implementation of the system of the communication channels connecting Northern and Western Europe through Hungary is not likely to take place until the next century.

From the aspect of the international transport links strengthening our integration with a Single Europe, the possibility of Hungary's joining the high-performance lines of communication in the neighboring countries has a decisive role. First of all, the *motorways* may be taken into account. The Hungarian motorways start radially from Budapest, but none of them reaches as far as the border of the country. *The order in which it would be reasonable to complete them depends on the possibilities of getting connected with the system of communications of the neighboring countries, as is justified by the traffic volume.* Luckily, the stretch of the motorway (M1) in the western direction which is to be completed is the shortest (50–60 kilometres) and since the traffic is the heaviest and the capacity is the most narrow, it is most urgent to have a high-performance connection here. This road may be easily linked through Bratislava with the Austrian motorway which approaches the border. There is a realistic possibility that motorway M7 heading from Budapest in a southwestern direction for Ljubljana–Trieste along the southern shore of Lake Balaton will be connected, provided that the already built up sections of the Slovenian motorways will be completed. The other motorways (M5, M3) may form a continuous communication road in the international traffic only if the neighboring countries are willing to provide adequate links and lead them through their respective territories. In the area of Serbia, the situation is more promising (the motorway leading from Vojvodina through Belgrade to Macedonia–Thessaloniki is ready), but in Ukraine and Rumania there is a lack of lines with the exception of a few city environs, so there is nothing with which to connect.

There is much more uncertainty involved in the possible connection with the express super railways which have been built so far only in Western Europe. Only after the planned trunk-line between Munich – Vienna has been constructed, can we start to build it further in the direction of Southeastern Europe. For the time being the reconstruction of the Budapest – Vienna line has been started with traditional technology for the purpose of carrying trains at a maximum speed of 140 kilometres per hour.

With respect to the shift of the formerly discussed transcontinental traffic corridor, *the point of building the Southern Motorway of transversal direction before the construction of the radial motorways may be questioned*. This road would enter Hungary from the west (from Austria, its other branch from the direction of Slovenia) and then with a curve towards the south it would follow the Yugoslavian and Rumanian borders at a distance of about 50–80 kilometres and go through the territory of Ukraine, across the Carpathians towards Kiev. Exclusively from the point of view of the traditional transit traffic, it is questionable whether it is reasonable for the vehicles to travel such a long distance, when it will be faster to get from the Alps or Dinaric Alps, or the space of the Po Plain to Ukraine after the completion of the roads leading to Budapest but by-passing it at the same time (M7, M3, M0). It is questionable whether in the case of the full construction of the radial motorways this transversal would carry sufficient traffic. Undoubtedly, the international access traffic can be reckoned with to a greater extent: the German, Austrian, Italian and Slovenian guests could reach Lake Balaton on this motorway, as well as the visitors from Eastern Europe the eastern and southern cities of Hungary.

On the other hand, within 10–15 years, the existence of the transversal motorways would be really justified (for instance, that of the recently planned motorway via Sombor – Mohács – Pécs – Siófok) not only from the aspect of traffic, but in the interest of regional development as well.

2. Development of the traffic infrastructure – characteristics of the transport policy

In addition to the system of values of the social market economy, the challenges of the European Single Market beginning to take shape and the serious deterioration of the environment justify the *reconsideration of traffic development*. Such a human-centered transport policy should be elaborated also to include the dateless elements of the earlier conceptions and give a clear outline of the tasks in accordance with the new requirements.

There is not a new coherent transport conception yet which would cover all the sub-branches of traffic. The sub-sectoral programs have been drawn up with a strong bias and without the genuine agreement of the other transport-carriers. For instance, the public road development program suggests that to solve the traffic problems of the country we should still rely on road traffic. Albeit in the more enlightened western countries, already in the eighties the attention was turned to the railways and waterways after it had been recognized that the more rapid increase of the environment-devastating, energy-wasting road traffic would lead to a breakdown and disaster. Backwardness in thought should not give rise to irreparable damage in the structure of traffic development. Therefore, much more attention should be paid to the possibilities inherent in the electrified railways and river navigation than envisaged at present. The mixed modes of transport should be widely applied (Ro-La, Ro-Ro, Hügepack), and the railway passenger traffic be made more attractive.

It's an imperative paradox that *the railway management is compelled to "step back" just in the period of our transition to the market economy.* Namely, the conception of the self-financing railway appeared still in the period of the planned economy, from 1982. It resulted in the financial bankruptcy of the railway, in spite of the fact that it increased its revenues by means of the repeated raising of the tariffs and endeavored to reduce its expenditures by the reduction of its costs. Yet the quality of its services has not improved, but there was a general deterioration of it with the exception of the measures restricted to a few trunk-lines.

Learning from the experience of the western countries, which organically developed under the market conditions, *the subsidization of the Hungarian railway is inevitable*, the maintenance, construction of the railway lines has to be funded from the state budget. In this way, the railway can meet its task of being restricted to operating without deficit and by using entrepreneurial methods. The condition of this is, however, the enactment of a new railway law which can ensure equal opportunity in the market for both the railway and the public transportation enterprises. The task of MÁV (Hungarian State Railway) will be to cut down its expensively maintained equipment and workforce capacity as required. But the state is still unable to grant the necessary funds for some years. Therefore, traffic will be suspended temporarily on the new branch-lines, and it would be illusionary to consider the construction of any new lines, however timely the issue may be! (For instance, in the central part of the country the construction of a west-east transversal (between Székesfehérvár–Szolnok) and numerous auxiliary lines). This situation results in the fact that the railway in Hungary is pushed into the background undeservedly in the development of transport and excessive

attention is focused on road traffic. It is true that because of our backwardness there is still much to be done in the road traffic, too.

The miserable condition of the inherited *road network* is the source of grave problems at various levels. From the sectoral aspect, it deteriorates the efficiency of the motorized traffic, above all on account of its *overloading*. At the same time, it also has a detrimental effect upon the other branches, not only because of the disproportionate size of the transportation-traffic costs but also by making co-operation and the territorial division of labor difficult. Thereby, it disadvantageously influences the efficiency of the whole national economy. Beyond the direct economic effect, the disquietingly rapid increase in the frequency of accidents and its environmental impact have to be reckoned with, too.

The road network development program to be implemented in the 1990s has been drawn up to eliminate backwardness. (It is related only to the 30,000 kilometre-long national road network carrying 65–70% of the road traffic which is managed by the state). The fundamental objectives were outlined as follows:

- the Budapest-centered radial structure should be complemented by transversal elements forming a ring and having adequate performance, that is the construction of roads should be in accordance with the transversal links;

- at least half of the county seat towns should be connected by the motorways (our motorway density is one-tenth or one-fifteenth of that of the highly developed countries);

- the busiest sections of the motorways going through the county seats should be relieved of the load by means of the construction of sections by-passing the towns (at present 23% of the main roads go through built-up areas);

- the construction of bridges should create possibilities for crossing the Danube and the Theiss at several points (as compared to neighboring countries, the density – one bridge per 100 kilometres across the Danube – is extremely low;

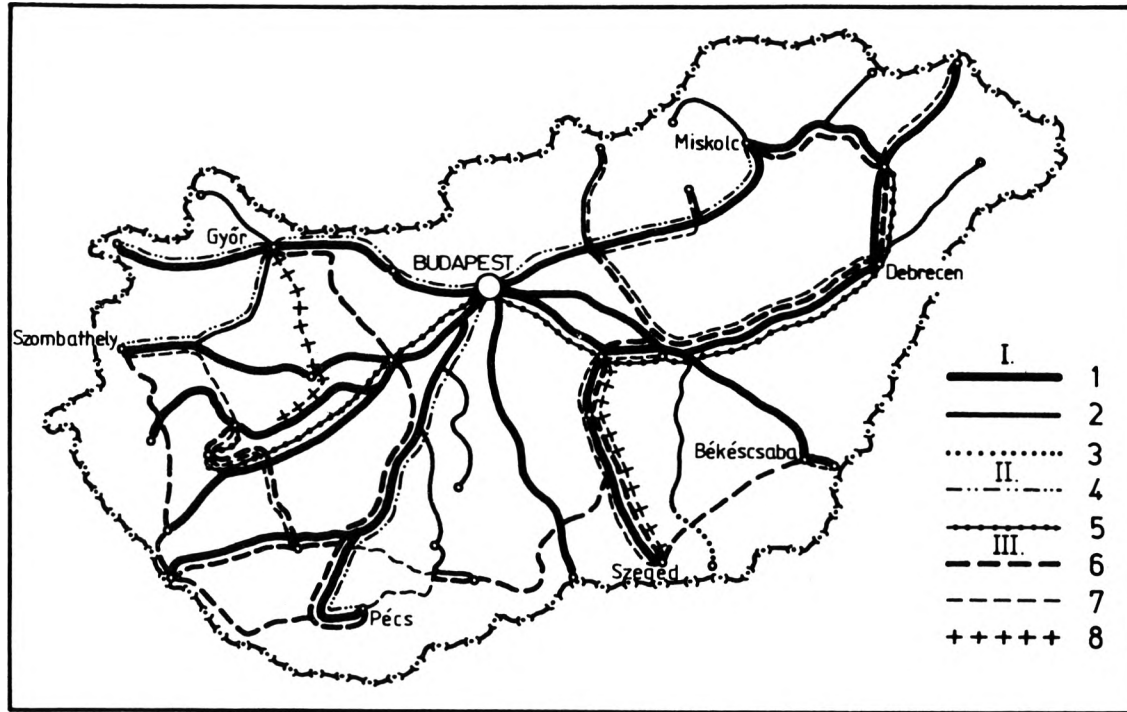
- special attention has to be paid to the construction of the road infrastructure of the border regions which are likely to develop dynamically;

- the number of the road-railway intersections should be doubled;

- in one-fifth of the villages which are linked to the road network only by a single access road, the connection should be made two-way in the interest of ensuring transit traffic and better and cheaper accessibility;

- cycle-paths should be built in the interest of traffic safety and tourism.

Figure 2
The capital-centered (monocentric) railway traffic



Key: I – central long-distance trains (meeting in Budapest); 1 – express; 2 – fast; 3 – long-distance passenger trains; II – quasi-transversals (interregional connections through Budapest); 4 – fast trains; 5 – seasonal fast trains; III – transversals; 6 – fast trains; 7 – seasonal fast trains; 8 – passenger trains.

It is still an open question how much the national road network development program related to the period of 1991–2000 can eliminate or reduce the lagging behind. The program-makers do not conceal that the development cannot keep up with the increase of the traffic deriving from the probable development of motorization in the next decades will lead to the worsening of the backwardness. In our opinion, the tensions will be even greater than prognosticated, *because at best only part of the incredibly large-scale constructions and reconstructions included in the program will be implemented.*

According to the forecasts, the following should be realized by 2000:

- our clearways should be increased by 81.2%
- main roads with a length equivalent to 21.5% of the present road network should be constructed, and the old roads should be doubled in width;
- the length of the secondary road network is to be increased by 8.1% of the present network, while the existing ones should be widened;
- our cycle-path network is to be increased by 226.2% until the year following 2000 at the latest.

3. New requirements to be met by the regional structure of public transport

The strong polarization having occurred in the income condition of the society as a consequence of the market economy and the continuing crisis, as well as the superannuation of the population will restructure the regional and varying demands for the different modes of transport, which will be affected by a the supply of a new-type having arisen as a result of the substantially changed proportions of the transport costs.

For decades, public transport was given preference over the individual transport in Hungarian transport policy. The cheapness of the fares made it accessible for people who had low incomes. As opposed to this, the individual transport was regarded as a form of luxury, therefore the prices of vehicles (chiefly of cars) were fixed at very high levels. Consequently (in accordance with the "socialist model"), the dominance of the public transport has remained in spite of the fact that its share has declined because of the continuous increase of the stock in individual vehicles.

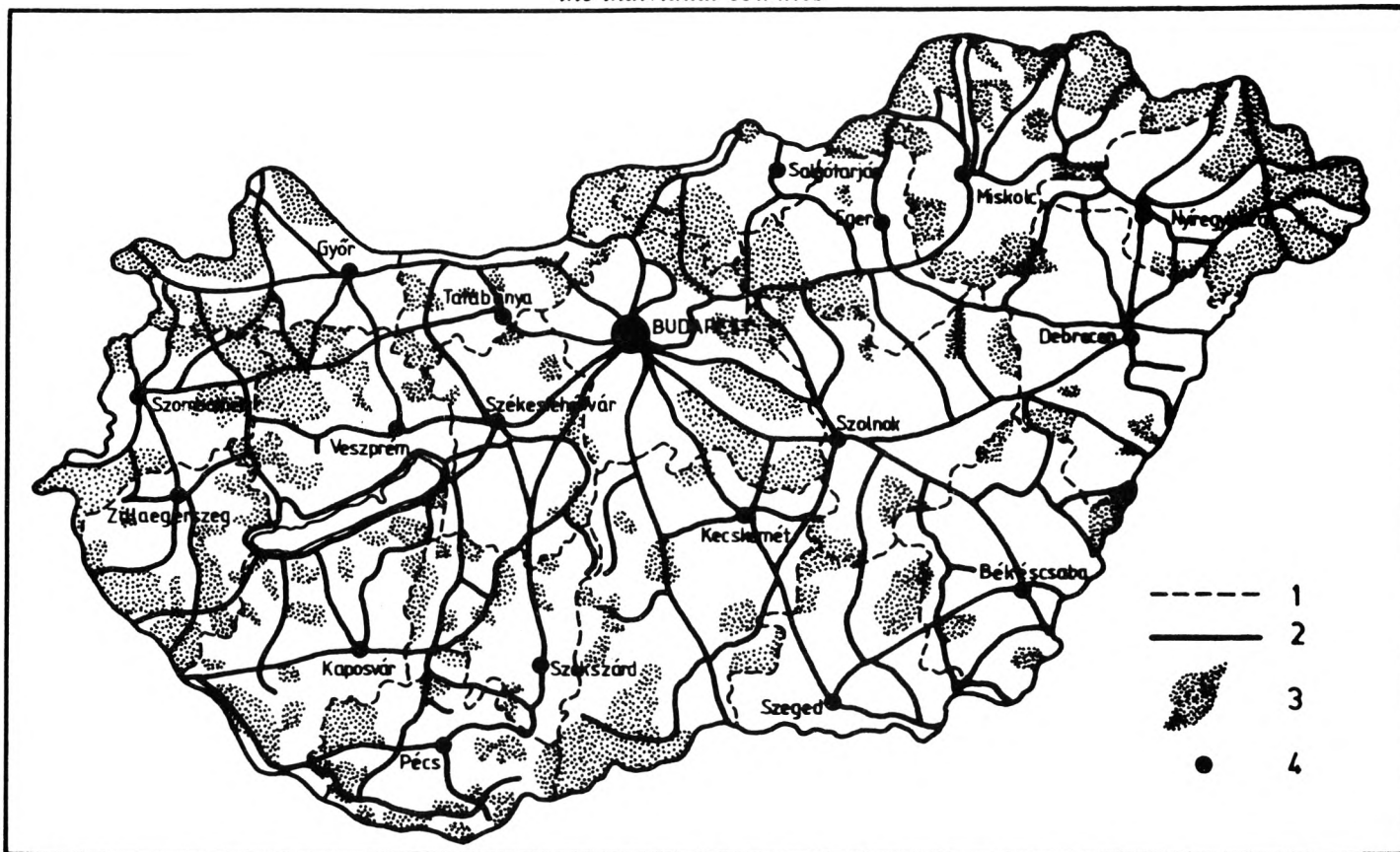
In the course of the polarization of the income conditions, a more and more significant stratum of the population has become car-owners. The great majority make use of the public transport only occasionally, restricting it to going to work. With the termination of funding, the fares are so expensive that, on the other side of the polarization, the masses being reduced to

poverty make use of the bus and train service only in the most urgent cases. (A four-member family pays an amount equivalent to half of the minimum monthly salary for 4 full-price return tickets for a distance of 200–250 kilometers). On the other hand, the decline in the number of the passengers continues to raise the specific costs of the transport companies and the resulting deficit. The companies are compelled to respond to this by the internal rationalization of their assets (lay-offs, use of smaller buses). (The reduction in the number of their services reaches the point when no services are provided every working day, or the fares are raised again). The steps taken in turn lead to a decline in demand. How long has this spiral been going downwards, at what point demand and supply reach an equilibrium, is unforeseeable now. Obviously, there is a limit "below" which it is impossible to go. (That is, the most essential needs for transport have to be met even at the cost of neglecting the consumption in other fields, and the companies may not reduce the number of services below a realistic level without the danger of complete failure). With the superannuation of the population and the reduced fares ensured for the oldest population (and the youth), public transport is becoming more and more a way of transport oriented according to the two extreme age groups. At the same time, the fare reductions due to most of the passengers form a factor which produces a reaction further decreasing the chances of economic efficiency.

On the basis of the supply with passenger cars, age and social composition and other active components, *the extent of dependence on the intercity traffic* shows differences. The paradox of the situation is that exactly in these regions the traffic supply is the weakest.

In the settlement network of Hungary, a strong concentration process has taken place recently. One of the factors which is a cause and at the same time consequence of this is the *development and location of services by "decentralization in a concentrated way"*. This practically resulted in the situation that in the smallest villages even the basic commercial supply was only partial. Often it is possible to make use of the institutions of secondary specialized provision only in the towns which are at a distance of 25–30 kilometres. *This regional system of provision, however, may reach the point of impossibility with the drastic rise in the fares of public transport.* To avoid this, *the services should be decentralized further and brought closer in space to the consumers, the users. There are only limited chances for this* because of the shortage of capital and the economic efficiency to be achieved through busy traffic. A long time is needed for the village population to have adequate purchasing power as a result of an organic bourgeois development and make the various local servicing ventures profitable.

Figure 3
Territories which are accessible from the county seats without having to change vehicles within the individual counties



Key: 1 – county boundary; 2 – railway; 3 – regions not accessible without changing vehicles; 4 – county seat towns.

The significant and lasting decrease in the employment quota has the effect of reducing the demand for public transport. The surplus labor is increased by the transformation of the large-scale agricultural plants into private farms. As a consequence of this, the extent of both the long- and short-distance commuting to the gravity zones and between the villages is likely to decline.

On the other hand, not only the job-related traffic but the necessity of travelling with the purpose of managing *official affairs* will also be moderated now that the multi-stage system of councils has been replaced by the self-governing system of public administration in which the villagers can manage most of their official affairs locally (in the large villages of the Great Hungarian Plain), or either act or get them seen to in the office of the district-notary in the nearby village (in Transdanubia, Northern Hungary). In the more complicated official affairs, the services of a higher forum, specialized institution or office, the personal presence of the inhabitants are required, but in appellate procedures they will invariably be able to act in the towns and cities (courts, labor bureaus) and in the competent county seats (office of the county general assembly, the delegatory office of the Prefect and its county agency, the deconcentrated organs of the ministries). Since the latter affairs most frequently burden the strata of the entrepreneurs, intellectuals and employees, whose majority are car-owners, the new regional structure can hardly be noticed in the public transport.

At the same time, the higher frequency of the traffic related to the *leisure-time activities* can be reckoned with. The leisure-time centers, the resort zones with weekend cottages are becoming more and more important as traffic-inducing factors. From among the purposes of travelling, individual vehicles are used most often in this relation. Therefore, the most important requirement here is the construction of adequate roads (and cycle-paths).

All things considered, *the public transport in the gravity zones should be maintained even under conditions of the market economy out of social considerations* for the elderly and young people as the most desirable instrument of going to work for all the employees, nearly regardless of the occupation. At present, however, there are no counties from all the settlements of which there would be access to the county seats without having to change vehicles. 9.2–41.3% of the population live in out-of-the-way settlements, yet most of the non-county seats (55.4%) cannot be reached directly from all the villages in their gravity zones.

For the time being, the bus service companies are owned by the state within the former organizational framework (county or city environs), but obviously privatization can be expected here, too. *Presumably the public transport will function most efficiently in the form of concessions.* It is a

question, however, how the interest of the entrepreneurs driven by profit can be co-ordinated with the needs of the population, the passengers. *Conflicts may be expected chiefly in the spaces with tiny villages which provide numbers of passengers below the profitability threshold.* Subsidization by the state or the local government is necessary to require two pairs of buses every day even from the tiniest village.

4. Improvement of the supply in telecommunications – a decrease in the regional differences

By international standards, Hungary is *more backward in the field of the telecommunications in comparison to transport.* The telecommunications indicators of Hungary are extremely unfavorable in comparison with the highly developed countries and even the East European states, which belong largely to the same category.

Great differences arose in the number of the telephones (main lines and extensions) and their common use by the mid-eighties. At that time, it was possible to make long-distance telephone calls only in Budapest and most of its agglomeration, in the county-seats and 2–3 towns with their environs in each county, in certain industrial zones and regions of tourism.

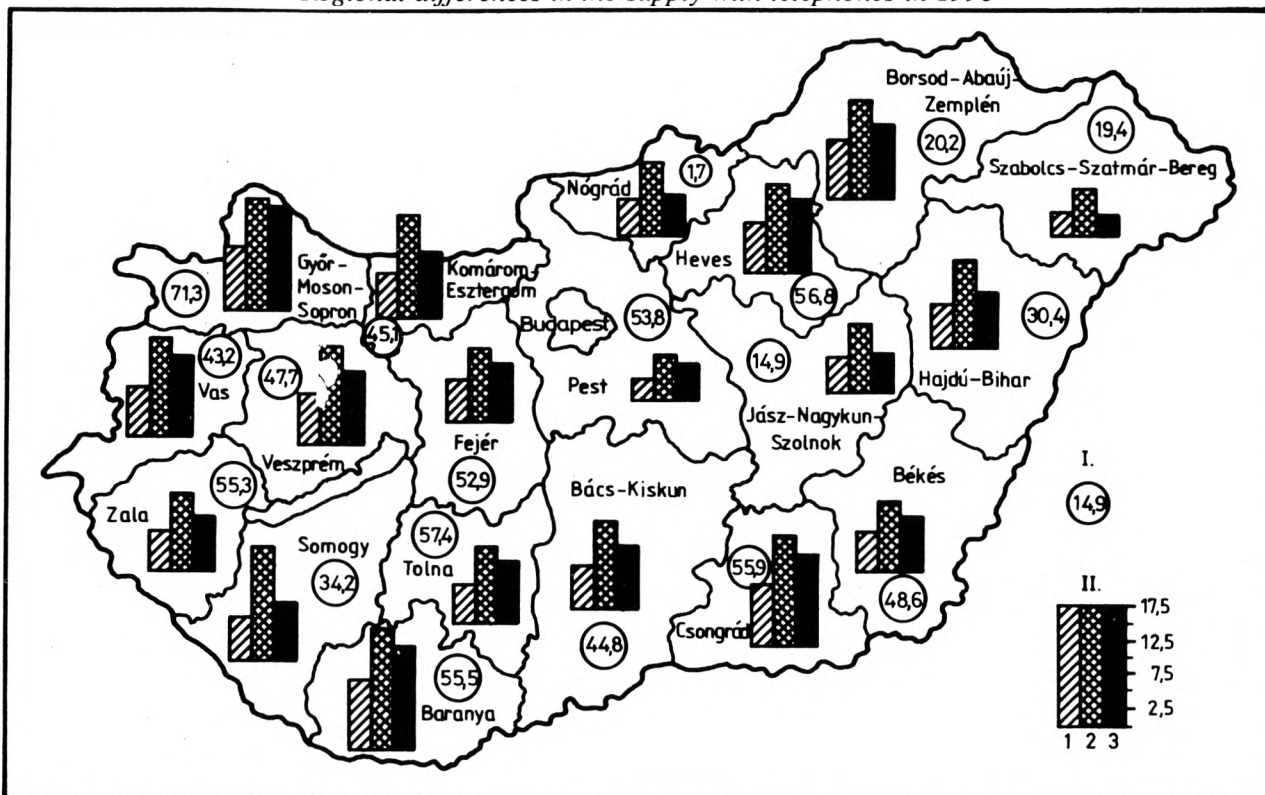
As a result of the greatly accelerated development program the number of the settlements connected with the – now predominantly – digitalized telephone network will have been doubled by 1993.

The development, however, cannot keep up with the demand yet. Therefore, the improvement in the supply of telephones may take place only by the application of preferences in accordance with the interest of the national economy. *At present, it is of utmost importance to supply thousands of new business ventures* in the interest of the unfolding privatization, business life and market economy. *It will be possible to meet the demands of the population (supply with home telephones) only from 1994 on.*

The regional differences in provision will be reduced as well. Since privatization had already commenced in the network construction of the small districts, *a radical change may be expected in the provision even to the villages of backward spaces by the late 1990s.*

The network of the national long-distance radiotelephone system (WEXTEL) has also been quickly increased. Since the chain of radios is extended along the main lines, for the time being it will give an alternative in the supply with telephones in the bands of the Budapest region, Northern Transdanubia, the resort region of Balaton and from Budapest towards the

Figure 5
Regional differences in the supply with telephones in 1990



Key: I – quality of supply, the percentage of the settlements connected with the telephone system as compared to all the settlements of the country; II – The quantitative indicators of supply; 1 – supply of the population with telephones, the number of the main line connections per 100 inhabitants; 2 – total supply with telephones (including the extensions) the number of places from where telephone calls can be made per 100 inhabitants; 3 – complex supply indicator (the number of connections and the extent of being connected with the telephone system multiplied).

north-east. By the late 1990s, however, this service, which will become cheaper in the meantime, can be used in all the regions of the country. The regional use of the telefax has followed the diffusion pattern of the telephone. Because of its costliness and relatedness to the telephone connections it appeared first in the capital and the biggest provincial cities, serving mostly the telecommunications of the financial and research institutes, administrative centers, large-scale (foreign trade) enterprises, which are the most susceptible to innovation and the least sensitive to costs. With the increase in the number of the settlements connected by the telephone network, faxes will spread more rapidly in the provincial spaces and also in the other branches (for example, in agriculture, light industry, home trade, services). Because of its becoming cheaper, it will quickly spread among the new businesses. Although the differences in the supply of faxes was perceptibly reduced in 1987-1991, if we take a closer look at the various parts of the country, *Transdanubia is in a significantly more advantageous position*, and with regard to the stock of settlements, the cities and towns have advantages in comparison to the villages. With respect to Hungary's dependence on the telephone lines, under the continuance of the specific differences between Western and Eastern Hungary and the (1.3-2.8 times) smaller differences between the town and the village. the market will have been saturated probably by the end of the 1990s. Largely a similar situation may be expected in the case of the telebox service.

5. The eve of the society of information-communication (Possible regional effects of telecommunications in the next decades)

As the construction of the new mains infrastructure (mainly the wide-band integrated digital light-conducting cable) required for the introduction of the most advanced high-performance instruments and services of telecommunications will take several decades, telecommunications may become a real territorial structure-shaping factor in Hungary only at the beginning of the next century.

On the basis of the present telephone and data-transmitting network it will help only concentration at first. Beyond the investments related to the World's Fair to be held in Budapest, this is the potential impact of the moments of economic history and our traditions of development. For example, the first teleport of the country has been established on the periphery of the capital. Just like the provision to Los Angeles with a network of light-conducting cables was due to the Olympic Games, Budapest may expect the same from the World's Fair.

The role of Budapest will continue to increase in the functioning of the international financial and trade links of the country. The multinational companies, world organizations have set up their offices, Central-Eastern European headquarters here, and they both need a supply of advanced telecommunications and can pay for the necessary equipment. Tourists in the capital which is of European rank will definitely "buy" telecommunications.

From among the provincial regions of the country, the position of Western Hungary will be further strengthened in the future in an absolute and relative sense as well by an increased supply of information technology and telecommunications and with respect to the telecommunications culture of the population. (The first "telehouse" has been established in Northwestern Transdanubia). The supply to our biggest provincial cities (Szeged, Pécs, and to a smaller extent Debrecen) will be urged and enforced by the universities and research institutes of nation-wide significance by all means. (Mainly from the foreign foundations).

It is uncertain yet how much telecommunications will extend to the other regions of the provinces. Theoretically, it might be an excellent instrument for the development of both the backward and peripheral regions which have a one-sided agrarian structure, as well as for the revitalization of the industrial depression zones: the spread of the tele-network at home might relieve the troubles of employment.

However, to make it an instrument of regional development, such massive development programs should be launched from central sources which would greatly rely on the possibilities of telecommunications. If this does not take place, we will have to face the danger that telecommunications will contribute to the division of the country into two parts, which can be already observed in several aspects:

- the contrast between Transdanubia and the Great Hungarian Plain, Eastern Hungary
- the sharpening of the contrast between the capital and the big cities.

The task then is to turn telecommunications into an instrument of a more balanced spatial structure by means of an adequate regional policy.

THE HUNGARIAN BANKING SYSTEM IN TRANSITION

LENGYEL, Imre

1. Introduction

The need for the drastic transformation of the Hungarian banking system was first expressed at the time when the 1968 economic reform, called the "New Economic Mechanism", was being developed. However, decision makers then concentrated only on pricing, regulation and material incentives, because they considered the transformation of the institutional- organizational system to be of less importance. As a result, the one-tier banking system was left intact as the main component of the planned economy. This highly centralized banking system, intertwined with monopolies was the most important tool in the indirect control of the economy, carrying out the intentions of the central economic policy through the credit policy. Restriction, however, became increasingly stronger after 1979 and it became self-evident that banks in their monopolistic position were not willing to take risks or able to apply market analysis in judging the companies, i.e. credits were not allocated on the basis of business considerations, and the banks were reluctant to finance small businesses or participate in the establishment of new ventures. As a result, it was widely recognized in the late 1980s that *the market economy could not be introduced without a decentralization of the banking system in Hungary*. As part of the program called "the complex development of economic management", the two-tier banking system was introduced in 1987, in which commercial banks competed with one another.

From 1989, the transformation of the financial system was accelerated by the establishment of specialized banking institutions and the issue of securities. In 1991, the Stock Exchange of Budapest was established, and in the autumn of the same year Hungarian Parliament passed the new Act on Banks which comes up to the requirements of a modern market economy. These changes went hand in hand with the privatization of commercial banks owned so far by the state.

In this study, I wish to describe *the process that has gradually turned a Soviet – type banking system into a modern financial system in Hungary*. In the 1960s and 1970s, the prevailing economic policy attempted to solve the

emerging problems within the framework of the planned economy, by improving the efficiency of the indirect control of the economy. From the early 1980s, however, mainly due to the failures experienced, more and more efforts were made to introduce the indispensable components of the market economy with the help of foreign advisors and international organizations. The gradual transformation and decentralization of the banking system went together with the disintegration of the planned economy, and, as a consequence, this process – and the other social and economic changes – promoted the relatively smooth transformation of the political system in Hungary.

In the present study, I wish to describe in detail the *transformation of the banking system and the changes in the finances of the population*. In my view both areas of study provide excellent examples illustrating the gradual transformation from a planned economy to a market economy and can help to understand these processes in Hungary. Furthermore, these are the two areas in the financial system where changes at a regional or settlement level can be described and interpreted.

2. The characteristics of the one-tier banking system in Hungary

Hungarian banks were nationalized in late 1947. The Soviet-type one-tier banking system, in which the central bank at the same time, as the most important commercial bank, was introduced in 1948 and 1949 (ASZTALOS, L. Gy. 1990, RIESZ, M. 1986), including the following units:

- National Bank of Hungary,
- State Bank for Development,
- Hungarian Foreign Trade Bank,
- National Savings Bank.

This one-tier banking system, established in the late 1940s, survived until 1987, although it underwent several modifications:

a) The *Hungarian National Bank* operated as the central bank of the financial system, issued the national currency and also functioned as a commercial bank. It held the most important monopolies, like:

- *issue of bank-notes and dealing in foreign exchange*
- *circulation of money*; this bank had the exclusive right to keep accounts for the government and its agencies, the companies, co-operatives, social organizations, and to perform their transactions;
- *granting of credit*: short-, medium- and long-term credits were allocated by this bank to the state and business organizations.

b) The *State Bank for Development* was responsible for financing, supervising and controlling the (usually large) investment projects that were given top priority by the state. Between 1948 and 1972, its legal predecessor, the Hungarian Investment Bank was responsible for the financial arrangements related all investment projects, as well as for granting credits to the building companies and keeping their accounts. After 1972, the financial affairs of the building companies were also taken over by the National Bank of Hungary and from then on all financial transactions were made through that bank, and all accounts were kept by it.

c) The *Hungarian Foreign Trade Bank* was in charge of financial transactions and specific banking operations related to foreign trade. This bank always functioned as a joint-stock company, its shares held by the various state-owned Hungarian foreign trade companies.

d) The *National Savings Bank* collected the savings deposits of the population, provided the citizens with loans and credits, and sold the hard currency allocated to individuals as a tourist allowance. It also had the function of selling real estate, financing the construction of residential blocks, organizing the football pools, selling lottery tickets, that is to say it was charged with a great variety of activities. In 1972, it also became the bank of the local governments.

In the period between 1948–1987, these four banks constituted the basis of the Hungarian banking system. Some smaller financial institutions also existed at the time, like the General Banking and Trust, that dealt mainly with the claims of foreigners in Hungary or the financial matters of Hungarians abroad (such as inheritance, pension, etc.).

This very brief review of the one-tier banking system seems sufficient to prove that the banks were distinguished by function and *each had a monopoly on its own field of activity*. This was the kind of banking that the Soviet-type, centralized and planned economy needed, because here the financial activities were subordinated to the naturalistic objectives and often to the ideology as well. The National Bank of Hungary could maintain its determinant role during the whole period and this was due not only to its monopolies and wide clientele, but also to its involvement with the planning and administration of the financial policy, therefore the other banks were not more than its "departments". The accounts of all corporate bodies in Hungary (except for the building companies before 1972 and the councils after 1972) were kept by the National Bank of Hungary, and this allowed the central authorities to keep a firm hand on the whole financial system and regulate the processes and circulation of money through this bank. The credit policy (and money) guidelines that were incorporated into the national plan of the economy

defined the conditions of credit (interest rates, guarantees, etc.) very strictly and banks – even the National Bank of Hungary – were expected to comply. Firms were granted credits in compliance with the plans approved by the higher authorities and if unforeseen events occurred, these plans were modified after lengthy bargaining. It should be noted here that company managers had no interest in investing their own resources in ventures other than their own, even if it meant low efficiency, as a consequence there was no horizontal movement of capital (SOÓS, K. A. 1986).

After 1968, company autonomy increased and as a result, a part of the profits generated could be used to create a so-called development fund, the utilization of which was left to the management's discretion. The creation of this development fund was, however, centrally regulated in such a way that it could never amount to a significant sum and so it did not even cover the investments needed for maintaining the technological level. If the company intended to start an investment project it could either apply for credit from the bank, or start lobbying to get additional resources from the national budget, these two being the exclusive sources .

The savings of the population and private loans were handled by the National Savings Bank, but the *savings co-operatives* also had the right to operate in this field. In 1980, there were 263 savings co-operatives in Hungary, operating independently from one another and located in different regions of the country (they had 1,700 branch offices). They had 10–15% of private savings and some 5% of the loans and credits, which indicates that their role, – in spite of their high number – was only auxiliary. The National Savings Bank had central offices in all counties and branch offices in the larger settlements (some 650 offices altogether), while the savings co-operatives functioned mainly in the villages (and not at all in the large towns or the capital), where they collected savings deposits offered consumer credits for purchases, and were used by companies to transfer payments to the population of villages, e.g. payments for sales of agricultural products. The National Savings Bank also commissioned post offices (in 3,200 settlements, i.e. nearly all over the country) to accept savings in simpler forms. There could be no competition between the Savings Bank and the savings co-operatives, because they did not operate in the same settlements, and, on the other hand, both had to comply with the same regulations for the loans and the savings as well, i.e. they were not free to change the terms and conditions.

Among the various forms of private savings, only *savings deposits and cash kept at home* were really important because securities were marketed before 1983 (*Table 1*). Banking services were scarce, because credit cards, check books, machines changing money were not used at the time; payments

could only be made in cash in the restaurants or shops, and the situation was worsened by the fact that the banks were closed from Friday noon to Monday morning, and during that time it was impossible to draw cash. In spite of this the total amount of savings was high, because insurance policies were rudimentary, pensions were low, the utilization of private capital was strictly limited (e.g. one family was entitled to possess only one flat and one holiday house), therefore savings (or cash) functioned as *safety and liquid reserves*. Until 1986, two thirds of all savings were in the form of deposits and one third in cash. Before 1989 Hungarian citizens were allowed to have currency deposits only in special cases. In Hungary, citizens were not forced to save their money, there were goods available for them, perhaps they could not always buy the goods they wanted in the first place (KORNAI, J. 1980). People kept considerable amounts of cash at home, because banking services were not developed, inflation was low and people had to wait before they could obtain certain goods.

Table 1

Changes in the consumer price index and savings by the population in % of the previous years and the distribution of the various forms of saving

Year	Price index	Savings index	Distribution of forms of saving			
			Cash	Forint	Foreign currency	Securities deposits
	(%)	(%)	(%)	(%)	(%)	(%)
1980	109.1	—	33.2	65.7	1.1	—
1981	104.6	110.2	33.3	65.5	1.2	÷
1982	106.9	108.6	32.6	66.3	1.1	÷
1983	107.3	112.1	32.4	66.4	1.1	0.1
1984	108.3	111.5	32.4	66.0	1.4	0.2
1985	107.0	111.5	32.1	65.8	1.5	0.6
1986	105.3	113.4	31.7	65.1	1.7	1.5
1987	108.6	109.4	32.4	60.9	2.7	4.0
1988	115.5	111.2	30.4	59.9	2.9	6.8
1989	117.0	107.5	29.9	57.3	4.5	8.3
1990	128.9	124.1	27.1	49.9	10.7	12.3
1991*	135.0	127.7	24.0	41.4	15.2	19.3

* preliminary data

Outside the large towns people could not hope to rent cheap state-owned flats, but had to buy one. Flats were very expensive (since salaries and wages were not calculated in such a way as to cover the costs of buying and maintaining a flat), loans were not easy to obtain, so people intending to buy or build a flat/house had no other choice but to save their money. *90% of private credits were related to housing*, i.e. they were mortgage – type credits, that only the National Savings Bank had the right to grant (until 1985, when the savings co-operatives were also given this right). The remaining 10% was constituted by consumer credits (available only for the purchase of a certain list of goods, but not for cars, for example), personal loans or loans granted for small scale production. Buying a flat was also considered as a form of saving, and in the country mainly houses or holiday houses were bought to invest, and in this way, save money.

The state provided *financial support* to those who chose to build or buy their own flats/houses (LENGYEL, I. 1991b). To grant, control and keep records of such support was the monopoly of the National Savings Bank. There were two kinds of support with variable specific terms: on the one hand, from 1970 on, citizens could apply for a non-repayable support whose sum was fixed according to the number of children living in the family (in case of two children this represented about 10–20% of the total building costs), and, on the other hand, long – term, mortgages at a low interest rate could be obtained to cover about half of the total costs. This type of mortgage used to run for a maximum of 35 years at a 3.5% rate. The main feature of this support system was its availability to anybody regardless of income or financial position, it could, however be used only to buy newly constructed flats, or flats sold by the National Savings Bank. This meant that the central authorities responsible for the housing policy could control the market of flats through the monopoly of the National Savings Bank. The difference between the fixed interest rates paid on mortgages and the business rates was transferred to the National Bank of Hungary from the national budget – a really good deal for the bank. One important consequence of the above-described credit policy was the fact that most of the support went to large towns. In the towns, the National Savings Bank was willing to buy all the flats available, because it had no difficulty reselling them, but in the villages, it bought only the best in excellent state. As a result, people living in villages were not granted any support for the purchase of a second-hand flat, only smaller amounts of low-interest rate credit for the renovation. It should also be mentioned that in towns the population did not have to pay for the construction of water and gas pipelines or roads, etc. but in villages they were forced to establish associations of population and through them finance

the development of the infrastructure. Preferential credits were, however, available for them.

The National Savings Bank and savings co-operatives had an extended *network of branch offices*, just like the National Bank of Hungary, which had a central office in every county seat and branch offices in several towns (94 altogether). The State Bank for Development had only a few offices outside the capital, primarily in the large towns and the industrial regions. The Hungarian Foreign Trade Bank, had no network at all. In all cases, decisions were typically made in the headquarters (located, without exceptions, in the capital), and the offices in the country were only responsible for the execution of the decisions, therefore highly qualified professionals were scarce in the networks.

These are the most important facts that I consider important to mention about the financial institutions between 1947–1987, functioning as an integral part of the centralized planned economy. Without this review the main characteristics and regional specifics of the transformation cannot be presented properly. This kind of highly centralized, monopolistic banking system was found not only in Hungary; it was more or less typical of the other East European socialist countries as well.

3. The events preceding the breakdown of the one-tier bank system

Some of those who developed the concept of the 1968 new economic mechanism (also known as the reform of economic management) believed that the institutional system would be transformed in the second stage of the reform. With the setback of the reform, however, these plans had to be given up and in 1972 only the modifications could be realized instead of the full transformation of the banking system.

In 1979, the need for fundamental changes was recognized again. This new economic policy was primarily induced by the *critical situation of the Hungarian economy*:

- by the late 1970s, the country had gotten deeply indebted, the expansion meant to preserve the obsolete economic structure and financed from external sources could not be maintained any longer; there was also a significant deterioration in the terms of trade,
- the pressure to repay debts led to constrained exports, a setback in investments and stagnation of living standards.

The solutions that the economic policy found in this difficult situation were greatly determined by *the social processes* of the 1970s, too

(HANKISS, E. 1991). The 1968 reform increased the autonomy of the state enterprises, some of which had already more professional management, with market experience (mainly those that had relations abroad). For the new managers only the strengthening of market relations and the increase of enterprise autonomy seemed to be acceptable. On the other hand, a significant part of the population became more well-to-do by buying a flat, a car, a holiday house, travelling abroad, etc. (MATOLCSY, M. 1991). As a result of activities in the secondary economy which functioned like a quasi-market, people gained certain experiences with the market forces, and some West European patterns of consumer behavior also began to appear and public opinion found consumerism more and more attractive, which meant the acceptance of the market economy. Because of these developments, it was not possible in Hungary to cut consumption drastically without jeopardizing the established social consensus as for example, in Rumania.

There was only *one realistic alternative* left: to adapt the structure of the economy to the conditions of the market and invest the scarce resources on the basis of business considerations. The central authorities were not able to judge the efficiency of the state-owned firms because the domestic pricing system (including the subsidies) and the specific COMECON prices that never followed the trends of the world market created a chaotic situation in which it was very difficult to make decisions and, as a result, the economic structure remained unchanged. The large banks implemented the general restriction, but proved themselves unsuitable for selective development, triggering the structural transformation. It became more and more evident that the prevailing system of capital allocation needed transformation, and the first step should be the decentralization of the banking system.

The crisis created by the heavy burden of the debt service was further deepened by the fact that in the one-tier bank system loans were not taken given by the state enterprises or the banks, but by the National Bank of Hungary, representing the Hungarian State. At that time, no reliable guarantees were offered to working capital from abroad and the chaotic economic conditions deterred foreign businessmen from investing in Hungary.

In the period between 1979 and 1982, battles were fought at the level of interests and arguments, however, no significant changes were introduced due to the resistance of the large banks that worried about their monopolies (ANTAL, L. – SURÁNYI, Gy. 1987; ANTAL, L. – VÁRHEGYI, É. 1987). In order to solve the contradiction created by the general restriction on investment projects and the constraint to export, so-called *specialized financial institutions* (development funds, limited partnerships) were established in order to relieve the rigor of capital allocation. These new institutions were to finance the development and launching of new products,

the establishment of marketable ventures, the organization of domestic and international co-operations, leasing and rental deals, etc. Their clientele was mainly constituted by smaller firms and ventures that were not welcome by the larger banks. In late 1986, there were as many as 14 such financial specialized institutions in the country, most of them using the capital created from the development funds withdrawn from the companies, or allocated by banks. It is widely believed that the large banks attempted to prevent real decentralization by establishing these smaller banking institutions that were fundamentally dependant on them. The absurdity of the situation is well illustrated by the fact that the legal status of these institutions was not regulated until the 1985 Act on Finances; until then they operated in rather confusing conditions.

I wish to mention here that fixed rate *bonds* were first introduced in 1983, and they were made available both for companies and the population. The state, in order to promote their sale, offered a 100% guarantee on them. In the early 1980s, bonds were the first securities issued in large numbers. Both companies and local councils tried to increase their resources by issuing bonds. At the same time, bills of exchange also appeared in order to facilitate payments among companies and shorten the time a company had to "queue up" for receivables. It is also worth mentioning that the Central European International Bank was established in 1979 by 11 shareholders 10 of whom are foreigners; it was to function as an offshore bank for foreign trade and currency transactions. Hungary was the only socialist country to have a bank of this type.

The decision on the drastic transformation of the banking system was made after the shock caused by the financial crisis in 1982. The political decision to introduce a two-tier bank system with competing commercial banks was made in 1983. This process was fostered by the fact that in 1982 Hungary joined the IMF and from then on it was important to clarify how to finance the deficit of the national budget. Furthermore, advisors of various international organizations also emphasized the need to reform the bank system and whenever new loans were raised, Hungary had to promise the transformation of the capital allocating mechanism according to business principles.

Transformation, however, could only be realized gradually, after lots of debates and conflicts, because it was expected to harmonize with the related reforms in the field of taxation, pricing and wage regulation policy, as well as the changes in company structure. The first step was, in 1985, the separation of the two main departments (issuing and commercial) within the National Bank of Hungary, leading to the establishment of two central credit authorities. On the other hand, the existing specialized banks, funds and other

financial institutions became more clearly separated than before and their scope of activities was also extended. But the decisive step in the decentralization of the institutional system was the establishment of the two-tier banking system.

While the reform of the bank system was being developed in the mid 1980s, *extremely complex processes took place both within the society and the economy* (ENYEDI, Gy. 1990). In 1985, for example, it was made compulsory to nominate several candidates at the elections – as perhaps a rehearsal for democracy. The autonomy and economic role of the local governments also increased and normative factors came to be used in the allocation of public funds (LENGYEL, L. 1991c). In the selection of managers applications became general after 1985, the main criteria being professional and managerial skills, and political views were not taken into consideration any more. In 1982, the establishment of *small private businesses* was liberalized even within companies, on a part-time basis. The number of people working in small businesses increased from 68,000 in 1982 to 530,000 in 1987. It was this sudden development of small businesses that kept the economy going, paved the way for private businesses and trained masses of successful businessmen. The system of financial institutions had no other choice but to follow these changes, all the more so, that the large number of newly established businesses represented a new challenge for the banks.

4. The development of the two-tier bank system

In early 1987, the reorganization of the existing banks and financial institutions led to the establishment of the two-tier bank system in Hungary (LIGETI, S. 1987). The *National Bank of Hungary became the central bank*, while some of its former departments and the other existing banks were turned into commercial banks. The Hungarian National Bank is responsible for the development and implementation of the monetary policy. It has the following tools at disposal: refinancing, interest rate policy, mandatory (obligatory) rate of reserve, open market transactions, exchange rate policy.

In 1987, *five new, non-specialized commercial banks* were established:

- Hungarian Credit Bank,
- Commercial and Credit Bank,
- Budapest Bank,
- Hungarian Foreign Trade Bank
- General Banking and Trust.

Commercial banks were allowed to operate all over the country without any restriction as to region or sector, and the old monopolies were gradually done away with (until 1989). The five commercial banks were established as companies limited by shares, with the state as the major shareholder, represented by the Ministry of Finance. The other shareholders are companies and co-operatives. The first three of the five banks were newly established from various departments of the Hungarian National Bank, the State Bank for Development and one of the specialized financial institutions. The National Bank kept one office in every county, (there are 19 counties) while its other Hungary offices went to the three new banks. At the beginning, the Hungarian Credit Bank had 23, the Commercial and Credit Bank 47 and the Budapest Bank had 22 offices in their networks. The former clientele of the National Bank of Hungary (i.e. all the enterprises) were divided into three groups and they were not allowed to change banks for six months. The division of the clientele took into consideration the type of activity the company was engaged in, but this was not the main principle of the grouping. Right after the distribution of the central bank's offices, only one commercial bank could have an office in the same town.

The other two, previously existing banks (the Hungarian Foreign Trade Bank and the General Banking and Trust) were transformed into commercial banks and extended their services. Fifty per cent of the shares of the Banking and Trust were bought by foreigners. The State Bank for Development was liquidated, its country offices went over to the Budapest Bank, while its central office in the capital became the State Development Institute, an organ charged with the preparation of decisions on development projects. The small banks, specialized financial institutions founded in the early 1980s were obliged to turn into joint-stock companies by the end of 1987. The difference between small banks and commercial banks was that the former were not allowed to keep accounts for their clients. The activities of the savings co-operatives did not change significantly, but they together founded a commercial bank in 1989, called the Bank of Hungarian Savings Co-operatives. At the same time, the body supervising the activities of the banks was also established.

Commercial banks were given the right to deal with the *money matters of the population and currency or international transactions* in 1989. The number of companies with a right to foreign trade was around 30 in the early 1980s, but after liberalization this figure increased to 10,000. This also increased the clientele of the banks.

Long-term mortgage loans with a fixed interest rate, granted before 1989, were transferred to the Housing Fund, whose bonds were bought by banks dealing with banking for the population. This partly explains why the

National Savings Bank was transformed into a commercial bank only as late as 1989. The department dealing with the lottery and pools got separated from the National Savings Bank and was turned into the Gambling Co. Ltd. The National Savings Bank is not involved in the trading of real estate any longer, therefore a separate organization was established for this function as well. The National Savings Bank, which managed to retain the largest network of branch offices, is very active in financing small businesses and has kept among its clients 90% of local governments.

The review of the changes in the banking system reveals that the two-tier bank system was created through the transformation of the former banks and financial institutions. This transformation took place between 1985 and 1989, including the legislation on the operation of banks. The former monopolies were done away with, and the banks (e.g. the National Savings Bank) got rid of those activities that did not fall in line with the functions of commercial banks. After the establishment of the two-tier banking system, or the change in the political structure, banking experienced a boom, new banks were established, foreign banking services began to appear and foreign banks also opened offices in Hungary.

After the banking reform in 1987, several new commercial banks were established, some were just transformed from the former specialized financial institutions, while others were really new. Foreign banks also founded joint ventures, bought shares in Hungarian banks or opened branch offices in Hungary. In August 1991, there were as many as 17 commercial banks (owned by Hungarians only), 13 banks with foreign participation, five specialized financial institutions and 17 branch offices opened by foreign banks (see Table 2). The figures themselves can prove that the banking system was fundamentally transformed in the past four years, at least as far as the number of banks and their functions are concerned.

Table 2
The number of financial institutions

Institution	1982	1985	1987	1988	1989	1990	1991*
Central Bank	1	1	1	1	1	1	1
Commercial Bank	–	–	5	8	13	13	17
Specialized Bank	2	10	14	14	11	9	5
Savings co-op	263	262	260	260	260	260	260
Others	5	5	4	4	7	8	13
Insurance Co-s	1	1	2	4	4	6	11

* As of August 1991

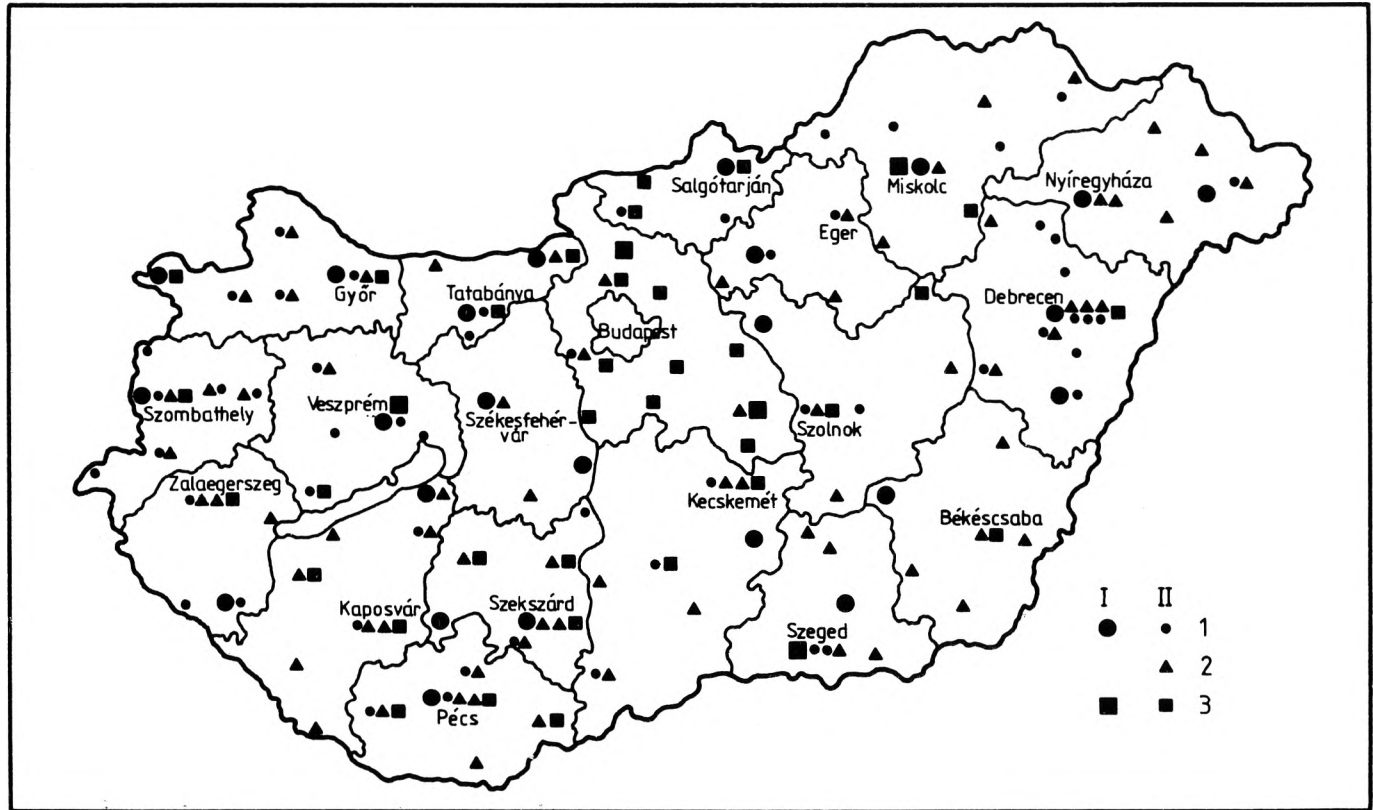
The number of commercial banks increased in a spectacular way, some of them were new establishments but the majority was created from the former specialized financial institutions. The group marked "others" included all the existing banks before 1986, but after 1987 only the joint venture-type banks. The decentralization of the insurance companies followed the same pattern; before 1986, there was only one insurance company; this was divided into two separate companies, and gradually more and more others appeared, mainly with foreign investment.

After 1987, the commercial banks made serious efforts to develop their networks in the country (LADOS, M. 1991). All three of the large commercial banks inherited only parts of the previous networks and this is what they tried to extend. A typical feature of their expansion is the fact, that they opened offices mainly in larger towns and county seats where they had not been present before, and, on the other hand, most of the new offices were opened in the towns of Transdanubia. (*Figure 1*).

Before 1987, the National Savings Bank was the only commercial bank with a network of branch offices in the country (see above). It was a great advantage for some of the new commercial banks to inherit some operating network. This was the case with IBUSZ Bank, which "grew out" of Hungary's largest tourist agency in 1991. The company has offices in 80 towns which had dealt with financial matters before the transformation as well (exchange of currencies, sales of currencies, currency accounts). The Postabank and Saving Bank, was founded in 1989 with a network located in 3,200 post offices in addition to the recently established five regional centers and 13 bank offices. Of course, the post offices deal only with the simplest savings accounts. The Hungarian Post is the largest shareholder of Postabank, while 20% of the shares was bought by foreigners in 1990. Mention should also be made of Mezőbank, established by 1,300 agricultural co-operatives. Mezőbank had 18 branch offices and 11 agencies in the country. The other banks that are not listed here, have not yet opened offices in the country, or just a few.

All banks have their headquarters in the capital; some regional banks appeared only in 1991. The development of networks is hindered by the high costs incurring with the establishment of branch offices. The other difficulty is the shortage of highly qualified professionals in the country; they are mainly found in the larger towns, where they were employed by the councils, or large enterprises. Very few professionals are willing to move from the capital into the country. The training and retraining of financial experts started as early as the mid 1980s, but the demand is still far from being met.

Figure 1
 Networks of the commercial banks (August, 1991)



Key: 1 – MHB (Hungarian Credit Bank); 2 – OKHB (National Commercial and Credit Bank); 3 – BB (Budapest Bank); I – central office; II – branch office.

The low level of the infrastructure (telephone and computer networks) also prevents the introduction of the modern banking services. Most large banks hope that the privatization of banks starting in 1992 and foreign investors/owners will provide the capital required for the modernization. In terms of the 1991 Act on Financial Institutions, foreigners intending to acquire more than 10% of shares in any bank must get a preliminary approval from the Hungarian government.

It has been mentioned before that the three largest commercial banks opened offices in the larger towns and mainly in the towns of Transdanubia. The other banks also focused on these areas, because this is where most large investments were made (NEMES NAGY, J. – RUTTKAY, É. 1991). It is also true that foreign capital investments also concentrated in the capital and its gravity zone, or in Transdanubia. Tourism is also more significant in these parts of the country, including the Southern side of Lake Balaton. Due to these factors business seems to be better here, and the infrastructure is also more highly developed than in the East. These areas are also closer to the Vienna offices of the large international firms. There are, of course, depressed industrial areas, in Transdanubia, too, and very few banks opened offices in these.

Network development is hindered not only by the high costs, but also by the consideration that it takes years to build up a clientele, therefore returns on such investment are very slow. *Financing and crediting companies* involves very high risks because of the structural and market changes; several large companies are likely to be liquidated, unable to pay their debts. A lot of companies are heavily indebted partly to the banks and partly to their contractors (SPÉDER, ZS. 1990). In 1990–1991, it was common practice that "everybody owed everybody", payments were made at a delay of several months, and all companies accumulated both debits and credits. The act on bankruptcy was passed in early 1992, threatening companies in financial difficulties with bankruptcy proceedings or liquidation. Commercial banks have an important role in this process, because, on the one hand, they also want to get paid, otherwise they themselves will go bankrupt, and, on the other hand, it is their fundamental interest to put marketable companies on their feet. Considering the shortage of experts in this field, this process is going to take a considerable length of time. There are hardly any experienced consulting firms in Hungary whose expertise and services could be used in the bankruptcy procedures. The privatization of the state-owned enterprises is hindered by the same difficulty. What makes the situation even more complicated is the fact that the owners are mixed up, sometimes large companies struggling with difficulties hold a considerable stock of the bank's shares, whereas banks own a lot of company shares.

The *regional extension of banks*, as far as the number of offices is concerned, is at quite an advanced stage in spite of the fact that many of them did not start developing their networks before 1991. It is still too early to make a judgement on the quality of operations, because the new services are in the stage of introduction. The offices prefer to perform activities involving low risk and requiring no special expertise (savings of the population, current accounts, etc.). Of course, the new offices have been given quite different authorizations for their scope of activities.

The composition of *private savings* (of the population) has also changed and one of the changes can be accounted for by the livening of banking (*Table I*). After 1987, commercial banks issued a large number of *securities* like bonds, deposit tickets, etc. because that was the cheapest way of mobilizing private resources; they also collected *foreign currency deposits*. Since 1989, anyone can open a foreign currency account without proving officially the source of the currency and a lot of people fearing inflation, used this form of saving (the currency was mainly bought illegally). At the end of 1991 the total amount of currency deposits was 1,6 billion USD. Until 1986, the increase in the amount of savings deposits always exceeded the official increase in the consumer price index, later, however, it fell behind. In spite of that, the amount of private savings is still considerably high, approximately 11 billion USD. The reason is that the population has no chance to invest money in business, and prefer the security of a savings deposit. On the other hand, it refers to the fact, that – in spite of the difficult economic situation – the population has significant reserves, mainly due to the vitality of the "black economy" (GÁBOR, R. I. 1991). I wish to note that notwithstanding the high inflation rate, the exchange rate of the currencies has hardly increased since 1990, rather there has been a stagnation, mainly due to the "black economy". Another factor that also contributed to the increase in savings was the emergence of the so far hidden private fortunes (mainly used for transactions in the "black economy") and the repatriation of money kept in foreign banks.

Significant discrepancies can be observed in the *distribution of savings by settlements or regions*. As to per capita savings, the difference between urban and rural areas kept decreasing until 1982, but then the trend changed, and the difference became more expressed (LENGYEL, I. – SZEKERES, I. 1990). In 1990, half of the currency deposits, and one third of the Hungarian Forint deposits were with banks in the capital, although only one fifth of the total population lives there. In the last few years we have witnessed a large – scale differentiation in personal incomes in Hungary; the various groups of the population had different chances to make use of the new opportunities (HARCSA, I. 1991).

The *regional distribution* of private savings also shows significant differences (LENGYEL, I. 1991a) (*Figure 2*). In the depressed areas of the country (the agricultural regions and industrial centers) private savings have drastically decreased; the proportion of the unemployed and deprived groups is the highest here. Bearing their business interests in mind, the commercial banks decided to open branch offices in the counties with relatively high amounts of saving deposits, i.e. where people are better off (*Figure 1*). This difference between the east and west regions of the country is also obvious in the currency deposits; they tend to be high in areas with good tourist trade that also has an impact on the economy (*Figure 3*).

In the provinces – as we have already seen – the majority of the population chose to save wealth by *building houses*. In the late 1980s, practically all houses could be sold and the "profit" was much higher than interest rates on savings deposits. In 1989 the market for real estate weakened and prices went down dramatically, with the exception of the capital and some towns in Transdanubia. Wealth became "frozen" in the houses, because this type of asset is not liquid, it does not generate profits and is hard to mobilize. In the depressed areas, 40–45% of the houses was built after 1970, and they are in quite a good state of repair. In these areas, even the unemployed live in valuable houses of their own that they can neither sell nor maintain, therefore they can only rely on social benefits. There is no legislation on housing to ease this tension, there are no real-estate agencies or specialized financial institutions to promote the mobilization of these assets (now that the National Savings Bank has abandoned this part of the market) or to a grant mortgage on the houses already built.

In 1989 the *allocation of support given for the construction of new flats changed*; long-term credits became available only at non-preferential interest rates, but the state pays some of the interest in the first five (or ten) years in case of families with children. In 1991, the fixed interest rates on the previously allocated credits (maximum 3.5%) were increased, because the low rates meant a too heavy load for the national budget. The population was offered a choice between

a) accepting the higher interest rates (32% in 1992) with half of the credit written off, or

b) keeping the preferential credit at considerably higher and variable interest rates (15% in 1991). In the big towns, tenants of council flats have the opportunity to buy their flats for about one-third of the market price, and, at the same time, they are granted long-term credits at 3% interest rate (in 1992). In Budapest, about two thirds of all flats were owned by the state, in villages the same figure was 1%, therefore the regional differentiation in

Figure 2
Per capita private savings in % of the average of all deposits in the country (December, 1991)

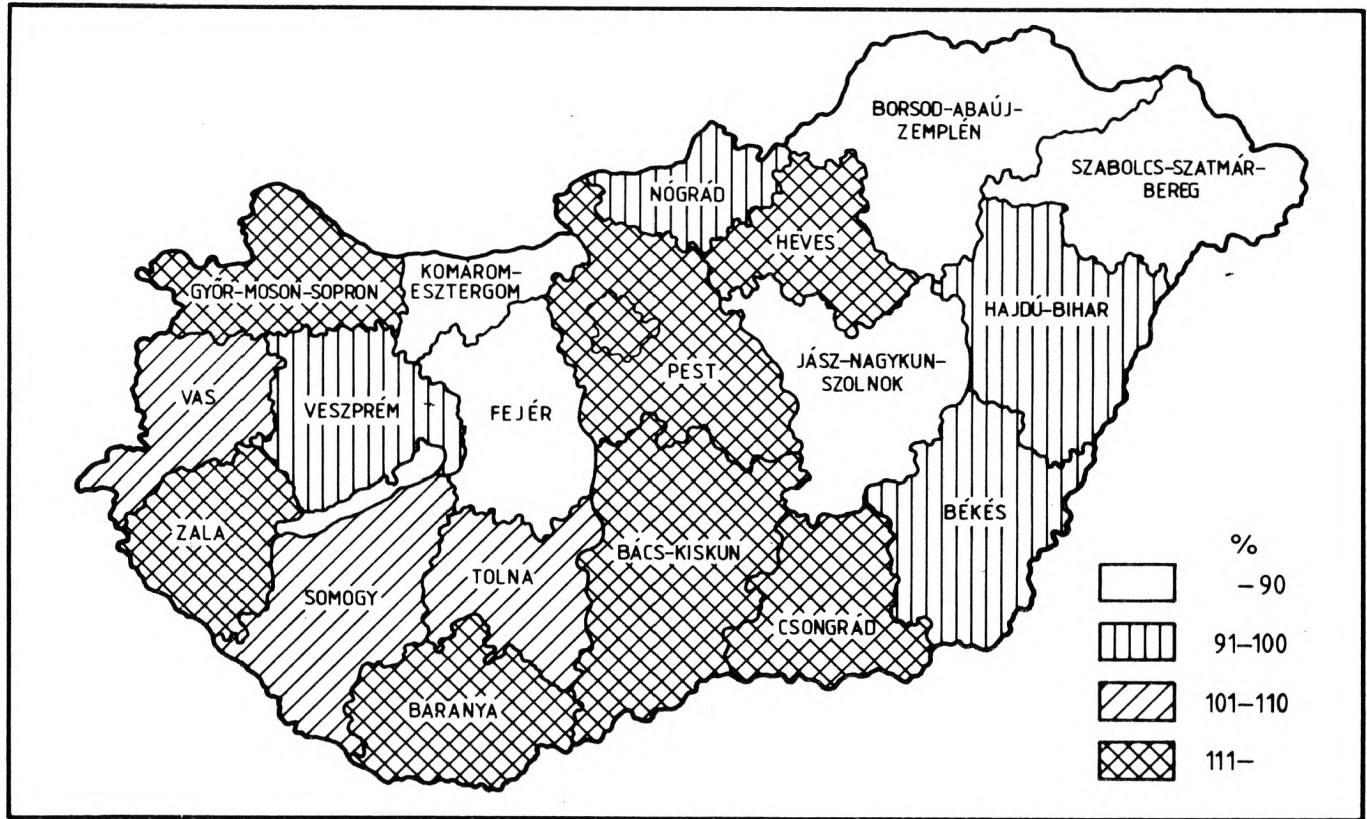
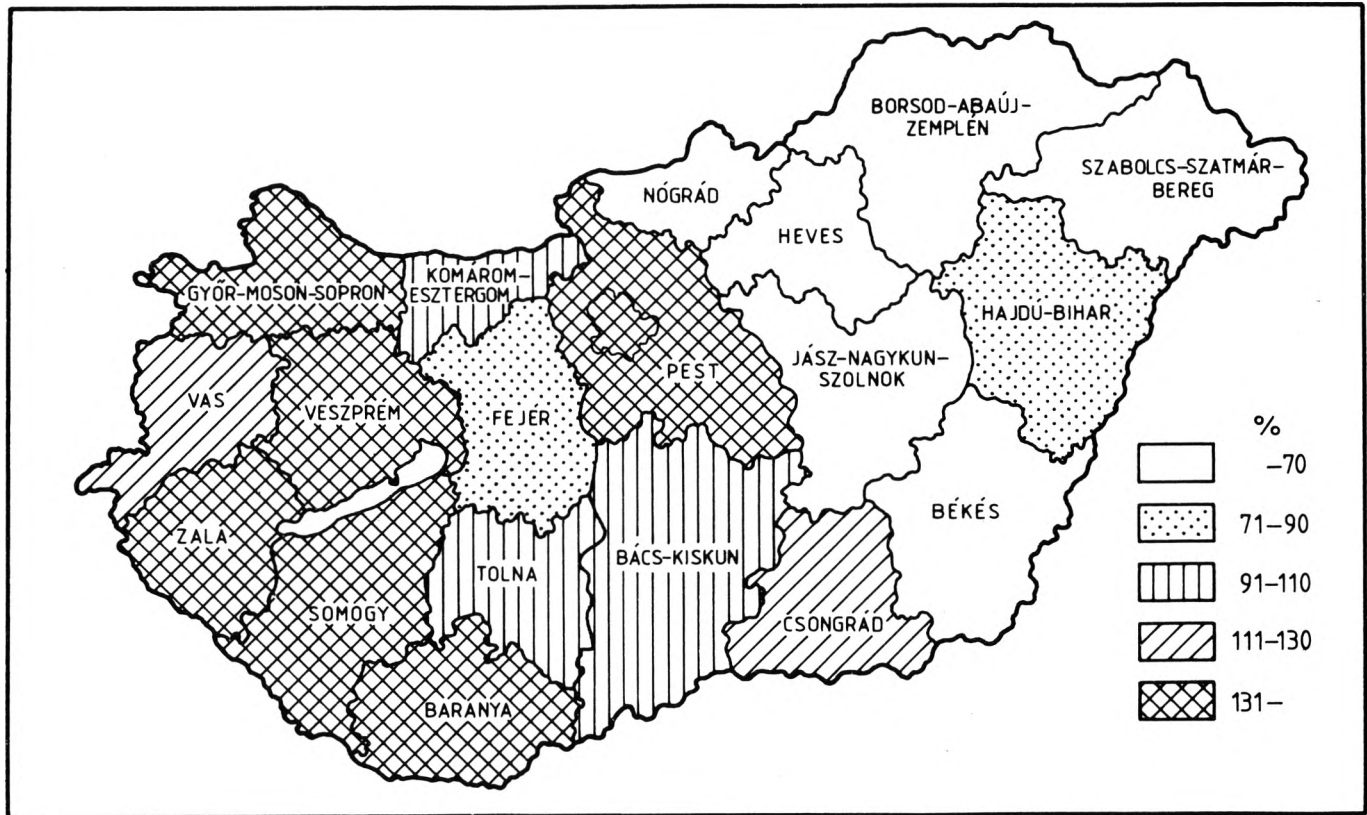


Figure 3

Per capita currency deposits in % of the average of deposits in the country (December, 1991)



wealth of population is also a consequence of the privatization of state-owned flats. In our days domestic and foreign business companies are ready to pay exorbitant prices for flats in the capital, therefore the owners can make significant profits if they are in the position to sell their flats.

There have been changes in the transactions required by the population, but the services so common in the highly developed countries have not been made available yet, either for credit or for savings. The institutional system has not been fully developed either. Transfer or electronic payment methods (credit cards, checks, etc.) have not been introduced yet, and the banks, stores or restaurants are not prepared to use them. On the other hand, habits do not change in such a short time, and a lot of people are still reluctant to use the services already available (e.g. opening a current account). The Stock Exchange of Budapest was opened in 1991, but the scope of shares available for the population is still negligible.

5. Summary

My intention was to describe the most important factors and events that played a part in the extremely complex process that led to the foundation of a modern system of financial institutions in Hungary. The reform in 1968 initiated some steps towards decentralization, real changes, however, did not take place before the summer of 1984. At that time, the reform of the national economy began to focus on competition, realizing the necessity of having companies that compete with one-another at the market and that the operation of institutions, among them the banks must be governed by the market forces (ASZTALOS, L. Gy. 1991). At that time, competition was assumed to develop within the framework of the planned economy and the one-party system. The views supporting various interests and the pragmatic ideas could be merged in a compromise at last, and it became more and more widely recognized that competition cannot develop without a reform of property relations. Parallel to this recognition, a new wave of indebtedness jeopardized the survival of the planned economy and the one-party system, and increased awareness of the need for a systemic change. This process was considerably accelerated by the events that took place in the Soviet Union and the other socialist countries at the time.

In 1987, the two-tier bank system was institutionalized with the establishment of competing commercial banks and financial institutions. The new 1991 Act on Banks and Financial Institution provided the legal framework for the changes introduced so far. It seems that there are no formal obstacles to the development of a modern bank system. However, it

will take a long time to introduce the banking services that are so common in the developed countries, considering the lack of infrastructure, modern office technology, business information and consulting agencies. It is not only the stores and restaurants that are not prepared to accept checks and credit cards, but consumer habits, lack of experience with the market economy also contribute to the difficulties.

Now Hungary has a lot of new financial institutions, a differentiated banking system, that can play an important role in the development of the market economy, privatization and business type capital allocation. Modern banking services can, however, be introduced only over a period of time, in harmony with the general pace of modernization. Time will tell, which of the new banks can survive, and whether we need such a great number and variety of banks.

Note

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SYSTEMIC CHANGE IN EDUCATIONAL POLICY

FORRAY, R. Katalin

State socialism, experienced in the past forty years either as an ideology or a practice, cannot be described as monolithic or homogeneous. In spite of the rough dictatorship of the early years, certain middle-class attitudes that had developed before World War II survived until the late 1960s. When the dictatorship became softer, some new attitudes began to appear that have defined the main trends of development up to the present day. The euphoria, experienced in 1989, has faded away as a consequence of the daily hardships of political, social and economic life. What are our resources for the future? In the present study, I wish to point out the main characteristic features of the changes in the schooling system, with special regard to regional differences. Changes can be interpreted only in the form of an essay because no scientific analysis is available that would allow us a quantitative approach. (It is also true that the short time that has elapsed makes the work even more difficult). I intend to limit the scope of this study to the school system, which means that I am not going to write about the new, business – type activities offering education or the increasing demand and supply in various forms of training and retraining.

1. Some general issues related to schooling

What is usually called "human resources" can be described in several dimensions. Schooling, the skills acquired represent one of the most important dimensions; not only because the quality of labor depends on the level of education but also because the values, norms, intellectual flexibility, and the ability for renewal developed in the course of education, become assets for the individual as well as for the micro- and macro levels of society and are particularly important for the future. There is no general agreement in the literature on what is more important for future progress: the knowledge taught at schools, in itself, or, certain personal characteristics that are developed in the course of schooling (BECKER, G. S. 1976). Schooling is a very complex phenomenon from another aspect, too. It is based on several factors: the education that the parents have acquired (socialization), the schools available (educational policy, infrastructure), and the marketability of

skills and knowledge at the labor market (local, regional and national economic policy and economic situation).

Looking at the issue from another aspect, it seems important to emphasize what Andorka stated in the conclusion of a large-scale empirical study in the early 1980s, namely that in societies that belonged to the same type as the Hungarian, formal schooling was overvalued (ANDORKA, R. 1982). The simple reason is that market economies offer several ways of achieving upward social mobility, individual success: economic or social success is not necessarily attained through schooling. State socialism does not recognize the market, private venture, at least in principle; successful careers can be achieved only within the state bureaucracy, where promotion depends on schooling.

In this way, schools became the exclusive channel of social mobility, the basis of a new hierarchy (very similar to the feudal system). This statement needs some refinement. The hierarchy was not so strict in Hungary as in other socialist countries, and in certain periods, party or political activity had a much greater importance. (It must be noted, however, that the monopolistic party strove, from the very beginning, to provide its cadres with formal school certificates!) In the late 1980s, Kolosi outlined the concept of a social model (although he failed to bolster his theory empirically), in which the dimension of the posts available through the channels of central redistribution is complemented with a system of posts available through the market forces (KOLOSI, T. 1984). In spite of this, the school maintained its outstanding role as the institution providing knowledge and assigning social positions.

Another parallel process also took place in Hungary, very similar to the one observed in the developed countries. Now, that an increasing number of people could obtain university or college degrees, certificates and diplomas tended to get devaluated. Devaluation in this situation means the loss of exclusivity, although there is now doubt that large-scale education also meant lower academic standards. Some fifty years ago, finishing eight grades at school (in Hungary this was the good old "polgári", upper elementary school often remembered with nostalgia) or the secondary school leaving certificate (available for very few people, 50 years ago only 4–5% of the same age group could get it) ensured a stable, relatively high social status. In the 1970s and 1980s, higher positions, or better chances at the labor market could not be obtained with only a secondary school certificate, (even less with only eight grades of the elementary school), although these are indispensable.

The general opinion, especially in the last two decades, has been that the younger generations are deterred from secondary and higher education by the extremely low salaries paid for intellectual work.

There is no statistical or empirical evidence to support this view.

The point is that a higher level of education and the resulting higher living standards can be realized over such a long time that only educated people can put them into the proper perspective. People with less schooling tend to think in different terms when they decide on the future of their children, and one main criterion for them is the income that can be directly realized. (This consideration is not necessarily a one-time conscious decision, rather an attitude developed in the course of individual socialization – in the family and at school – that is incorporated into the motivation for learning, thus decreasing performance and success and eventually blocking the way to higher studies). The attitudes to schooling that develop in this way, greatly contribute to the fixation of social structures. In a conservative society, there is no communication between "up" and "down" and the school is not able to function as a channel for mobility (FORRAY, R. K. 1988).

2. The school system

In the evolution of the schooling processes, we must not leave out of consideration the system in which the processes take place. The structure of the school system became quite rigid in the past forty years, and changes are very slow to start now, in the early 1990s. After eight grades of the comprehensive type of primary school for 6–14 year old children pupils could continue their studies and eventually obtain a secondary school graduation certificate at grammar schools (four years of study) or at technical secondary schools, providing training in various trades (also four years of study). Relevant statistics have changed very little in the last 20 years: about 40% of all schoolchildren choose these school types in all age-groups. About half of the schoolchildren go to vocational schools (three years of study), where they divide their time between general education and vocational training. Three to four per cent each age group goes to specialized training schools (two years of study) and the remaining 10% is either dropouts from the primary school or did not start secondary studies. There was practically no possibility to move from one type of school to the other, career correction was only possible in adult education. The number of dropouts is very high in secondary education as well, especially in the vocational schools, and as a consequence, some 25% of the 19–20 year – olds did not have either a secondary school certificate or vocational qualifications in the late 1980s.

About half of students with a secondary school certificate, i.e. 10% of an age-group is admitted to higher education. In spite of that, the proportion of people with university or college degrees to the active workers or the whole population is quite satisfactory even by international standards (ILO,

1980–85). The contradiction is explained by the high number of those who obtained their degrees at evening or correspondence courses (for quite a long time they represented about one third of people with degrees). This type of higher education is generally rated to be of a lower level, less demanding than full time training, therefore this increase in the number of people with degrees might indicate a decline in the standards of education (LADÁNYI, A. 1989).

The school types that are now considered traditional have always had serious deficiencies, and malfunctions that raise specific problems concerning the quality of education.

The primary school is not structurally differentiated, even internally, and therefore is unable to handle differences among pupils as to their interests, ambitions and motivations. The regional-social differences among the pupils become quite obvious within the individual schools and these differences continue to increase due to residential segregation. In addition to all this, the situation is worsened by the distance from the centers: the farther the school from the centers, the poorer its conditions (teachers and teaching technology). Therefore, the chances of higher education do not primarily depend on individual abilities, but rather on the "quality" of educational institutions.

The structure of secondary education has to cope with similar difficulties. Grammar schools are located relatively evenly all over the country and are, therefore, the most easily available secondary schools. The homogeneity ensured by the official-legal status covers great differences that are best illustrated with the number of pupils admitted to universities (from 0% to 90%). Secondary schools represent the society of the geographical and school registration region in a special way: children of the middle class and of intellectuals learn in the grammar schools of towns, while boys and girls coming from the lower middle-class go to the grammar schools in the more backward little towns. Because of the differences among grammar schools, only those who attended grammar schools, in bigger towns had a real chance to be admitted to institutions of higher education.

Technical secondary schools were attractive for members of the lower middle class who sought security and wanted to provide their children both with vocational qualifications and a secondary school certificate that entitled them to learn at colleges and universities. Legally, technical schools issued the same secondary school certificate, however, admission to universities depended on the result of a special entrance examination. At these entrance examinations, technical secondary schools did not prove to be competitive. This is borne out by statistics that two – thirds of youngsters with secondary school certificates come from technical schools while three quarters of freshmen at universities and colleges are from grammar schools. It means that legally it is possible to go to university from technical schools, in practice,

however, it is not so easy. In spite of this, technical secondary schools have remained attractive for the boys and girls coming from the large lower middle-class, regardless of the type of training they offered. These schools are found mainly in towns, industrial centers, for the main reason that this kind of training is more costly than the one offered by the grammar schools. In rural or agrarian districts, they cannot be found or those schools that are present offer training in less popular trades.

The institutional network of vocational schools is also quite well developed, which is really necessary in order to train about half of each age-group. In legal terms vocational schools are parts of the national school system (ranked as secondary schools); in reality, however, they are schools only in part because general education here only means the recapitulation and consolidation of what was taught in the primary school. The other part of the training is of a vocational character, connected more or less to the factories or companies located in the area.

One big problem is that the present types of training were developed for the socialist big industry, with the stated goal of meeting the labor needs of these large factories. These schools depended on the economic sectors that got into a deep crisis in the early 1990s, therefore they are not able to keep the old workers, much less to employ newly trained ones.

Any decision made on the structure involves the place of field work in vocational training. Vocational schools do not have any or enough workshops or instructors to provide the training. These have so far been supplied by one of the companies. Now, that the companies are not in the position to ensure such services, the schools are forced to develop new strategies, unless they want to close down. The new strategy often means the maintenance of the old type of training, i.e. vocational training with less or no field work.

Considering that the socialist big industry was not sensitive to costs at all, it was never realized that there was no good correlation between the actual need for labor and the training performed, either in the number of trainees, or the quality and the type of training. The companies paid their contributions to a central training fund, which financed the training of new workers in the numbers agreed on at the plan bargaining. The large companies, most of which have gone bankrupt, liquidated or privatized, are not able, or willing, to continue paying this contribution. As a result, the whole system of skilled worker training got into a crisis, and this is also true for the technical secondary schools that – because of their special profiles – were closely dependent on the companies.

In higher education, the main difficulty is the strong structural and spatial division of the network. Every county seat and bigger town – altogether more than forty – has at least one institution of higher education, some of

them with not more than 150–200 students, but working as separate institutions, with only loose connections to larger universities. At the same time, full-scale universities with several faculties/schools are found only in four large towns, apart from the capital.

The majority of smaller colleges are engaged in teacher training (for kindergartens and primary schools) and also train education specialists for the local level of public administration.

Another type of small college was established in order to supply the economy of the region where it is located with qualified people; training agricultural specialists in agricultural regions and technical specialists in the industrialized regions. Those institutions of higher education that are dependent on the economy have to face the same difficulties as secondary vocational schools because factories or agricultural plants cannot employ new graduates. The situation of teacher training colleges is made uncertain by the new requirement that they should adapt their output to the demographic trends, on the one hand, and, on the other, to the changing but not yet fully developed new school system.

In summary, we can conclude that the critical levels and types of schools are those that have so far been attended by the majority of the individual age-groups.

As to the quality of education, there have been regular international tests in the past 20 years (HALÁSZ, G. – LUKÁCS, P. 1989), and the results show that Hungarian schoolchildren at 10, 13 and 16 years of age are really good at mathematics, reading and sciences, and even outstanding in certain fields. The reason why we cannot feel fully satisfied is that the spread is too wide at these international tests, i.e. the good average results come from the extremely good and extremely bad pupils. The differences in the performance of the various schools and schoolchildren are too big.

3. Regional issues

Since the levels and types of vocational/professional training developed as defined by the economic structure, certain clear-cut regional differences can be observed.

At the turn of the 1980s and 1990s, the peak of the demographic wave reached the secondary schools. The number of children born between 1973 and 1976 is 15–20% higher than that of the previous generations (or the subsequent ones). The boom reached the secondary schools at the same time as the difficulties caused by the economic transformation. The number of pupils admitted to secondary schools all over the country is defined by the

availability of vocational training that 65–70% of the same age-group is willing to choose. (FORRAY, R. K. – KOZMA, T. 1991).

Most of the schools offering technical or vocational training are related to industry. Training of workers for industry has always had a relatively constant share – one third – within vocational training. (Except for the metropolitan area of Budapest and the North-West region, the most highly urbanized part of the country).

This more or less even distribution of vocational schools among the regions suggests that their establishment was motivated not only by the intention to meet market needs for properly skilled labor or, in other words, to provide a kind of training that is marketable in the area, but also by the idea that young people, first of all, some half of the boys need a useful activity between the primary school and LIFE. This latter consideration is also the result of an emergency: in the early 1990s every other boy under 16 (school leaving age) had no other possibility but to go to a vocational school. It is their training that is seriously jeopardized by what is called in a simplified way "economic transformation": a reduction of traditional training capacity without the introduction of new forms.

The regional distribution of technical secondary schools shows great discrepancies: even if we exclude Budapest and its metropolitan area, we find that the difference in the number of schools may be as big as threefold. This type of school is more sensitive to changes in the economy than vocational schools, therefore its distribution tells more about the industrial/economic structure of a region. In counties where the number of schools in general is low, technical secondary schools also have a strongly limited capacity.

Training for the various jobs in agriculture is quite limited both in technical secondary schools and vocational schools, hardly capable of meeting the needs. This kind of training at secondary level could become important only in a few counties where no other type of education or training is available. The crisis of the economy and the agricultural plants will certainly have an impact on thousands of young people living in the agricultural regions.

Training for professions required in the third sector (from electronics to business skills and health services) is offered by technical secondary schools. The proportion of pupils participating in this type of training within their age-groups is just a little smaller than of those being trained for jobs in industry. The only exceptions are counties where the number of secondary schools is small anyway. The establishment of these schools is not so costly, therefore they can be found even in less developed regions.

Vocational training for the third sector includes a limited number of trades: commerce, catering, and some services (e.g. hairdresser,

photographer, etc.). Its proportion to industrial trades is much smaller than in the case of technical secondary schools. A comparison of the training offered by these two school types will show that they complement each other in a certain way; if a trade is strongly represented in one, it will be hardly present in the other, and vice versa. Boys prefer the trainings for industrial jobs in vocational schools while girls would rather go to technical secondary schools and acquire skills they can use in the third sector.

The vast majority of boys chooses some industrial type of training, while the majority of girls prefers grammar schools, technical secondary schools or vocational schools.

The chances of the two sexes for schooling have been determined by the average of the counties. As we move down the hierarchy, we find that chances tend to become better for boys. Although this statement could be elaborated a little more, our purpose here is to draw attention to a hidden ideology, which often appears in the regional or national news reports on tensions related to schooling and employment.

The county networks of vocational training were adapted to the needs of boys rather than girls because they start at a lower level, are highly specialized and connected to the manufacturing industries both at the level of secondary schools and the vocational schools. This disproportion suggests that girls in many regions of the country either have to compromise and accept whatever kind of schooling they can get or give up ideas of a secondary education.

In contrast to the grammar school, all levels of vocational training are rather uneven. Technical secondary schools are organized around two regional centers – Budapest and the Southern Plain – and most of them take a high number of pupils from other settlements, too. Some schools in the North-West region also accept pupils from the whole region. It is mainly the technical schools in the East and North-East of the country that cannot take all the applicants: only 41–56% of the first-year pupils learn in their hometown, or nearby.

Finally, let us have a look at the structure of trades and vocations. There are actually five trades that take more than one third of all trainees: car mechanic, machine-setter, toolmaker, clothes manufacturer and salesman. At the same time, most metalworkers are trained in the purely agricultural regions, in the East of the country, where other dominant trades are: cutter, smith, tanner. Miners, metalworkers, turners and construction workers are trained in high numbers in the North-East of the country. These trades have very low prestige, as other studies have already proven, which may be the reason why that they are hardly represented in the vocational schools of the capital.

The magnitude and structure of vocational training in Budapest is best illustrated by the fact that one-fifth of all pupils are trained here. This is in proportion with the number of the population, but considering the aging of the population, the low demand for vocational training (only 30% of schoolchildren want to attend these schools in contrast with 50% in the country) we can state that vocational training is over-developed in the capital. Half of all skilled workers are trained here, and two-thirds of them learn the following trades: repair of mechanical instruments, printing, construction, food processing, catering and telecommunications. Other trades are less important (like metalworker, turner, smith, tanner, plant grower), or are not represented at all (miner, paper industry worker).

The more or less proportionate training of skilled workers is also characterized by a hierarchical structure (just like the whole secondary education): the more attractive, academic and modern forms of training are located in the privileged settlements, while training in the stagnating, more traditional or declining trades is offered in more modest settlements, further deepening the gap.

4. Schooling and demographic issues

Demographic conditions make this discrepancy quite peculiar (FORRAY, R. K. – KOZMA, T. 1991). The proportion of children within the population is relatively high in most settlements in the East, Szatmár and Bihar, as well as near the upper section of the river Tisza, but it also means a high proportion of people with little schooling: more than half of the adult population failed to finish the compulsory eight grades of primary school. Smaller areas with similar characteristics are found elsewhere in the country; one is the former "Ormánság", several villages along the river Dráva, and some settlements in the Börzsöny and Cserhát hills. Another similar type of larger area is found in Abaúj and Zemplén: here, too, the high number of children goes together with a low level of schooling. In these areas, the most urgent task is still the development of the primary school system if we are to improve the chances at the labor market of generations brought up here.

There are, however, areas in the country where "young people" and educated people are concentrated. This is typical of three larger areas.

One is located along the axis of Mosonmagyaróvár–Veszprém–Székesfehérvár–Kecskemét–Baja. In this region the high number of children is a good enough justification for the government to develop secondary education as a priority. By secondary education I mean types of school that give a certificate of education, and not just vocational training.

The other area deserving priority consist of the group of settlements located along the Szolnok – Debrecen – Nyíregyháza line.

Here, it is not the grammar school system that should be developed, but those types of secondary education that offer vocational training plus a certificate of education. If this cannot be realized, labor will leave the area at a quickening rate, or the unemployment of young people cannot be handled through the schooling system.

The third area is the industrial region of Borsod and Nógrád, or more precisely the settlements around the industrial centers. In both places, the population of the villages is more highly educated than that of the towns. This could be considered as a valuable resource. Instead of the one-sided development of vocational training that has been the top priority in the educational policy of both counties so far (KOZMA, T. 1989), more attention should be paid to the development of grammar schools and technical secondary schools. Without that, they cannot think of a structural transformation of their industries.

5. Main trends in changes

Considering that schooling is deeply rooted in the socio-economic structure and relationships on the one hand, and the individual social and psychological conditions on the other, it is logical to suppose that the "systemic change" will be a lengthy process in this field. In the first part of the paper, my intention was to describe the school system and the situation of those who attend schools. Now I wish to continue with the discussion of the central and local forces that can change the school system and the main trends in the changes. To begin with, it must be noted that new legislation on education has not yet been discussed by the Parliament. Therefore, changes in the educational system are spontaneous, bottom up initiatives. The spread of new solutions is not channelled by legal provisions, but natural rules; they spread like all other innovations. As a result, no exact statistics are available on the present situation.

In the development of the primary school system, the guiding principle was the establishment of large, central schools in rural areas from 1948, the year when schools were nationalized, up to the mid 1980s. This quite naturally had the consequence that large numbers of small schools in villages were closed down. It is now impossible to tell, to what extent this tendency was due to the prevailing education policy or the reaction to the depopulation of the villages. However, it is quite obvious that the massive liquidation of village schools started after the new policy on the development of settlements

was accepted in 1971. This new policy doomed small villages and homesteads to destruction. In the four decades that have elapsed, more than one-third of schools ceased to exist (their number was reduced from 5,000 to 3,000), and one third of those that were left had only the first three or four grades of the primary school. In rural areas, children were taken to the central school by a special bus service and those who lived too far could stay in hostels during the week.

Data of the 1980 census (the last census, where data were also grouped by types of settlement) prove beyond doubt that the population of settlements without schools has a lower level of education. In this respect, there are two factors that had an equally strong effect: on the one hand, selective migration meant that villages without schools first lost their more educated inhabitants, and, on the other hand, the geographical distance of a school had a stronger effect on families or groups with less schooling, as if geographical distance increased social distance as well. When pressure on schools in rural areas eased in the late 1980s, some villages managed to reclaim their schools. These were mainly settlements that, in spite of the small number of their populations could get into a favorable economic or social position (the population is educated, jobs are available, and technical infrastructure is better than the average, etc.).

At the time of the local elections in 1990, nearly all settlements that had earlier lost their independence became autonomous again. The new local governments declared their intention to reestablish at least the lower section (4 grades) of the primary schools. This zeal shows that the villages doomed to destruction still have the strength for renewal. The local school – now that it is not directed "from above" – may stimulate interest in schooling even though results cannot be expected for a long time.

In professional terms, however, the establishment of such a high number of new schools cannot be considered a positive trend. Even if we disregard the problem of the shortage of qualified teachers, we still have to face the doubt about whether the local school does not contribute to the isolation of children from the more varied influences to be gained in larger settlements, quasi closing them in a ghetto. In this way, the price to be paid for the advantage of a local school would be increased isolation. The zeal to establish new schools is apparently a transient phenomenon and time will tell where local schools can work efficiently and economically, or where settlements should co-operate to establish and operate a school jointly.

Another equally important change has taken place within the primary schools: an increase in the length of schooling and the introduction of certain special training. This change is meant to fill the gap between the last (eighth) grade of the primary school and school leaving age (16 years), which has

been a problem in the system since the 1961 Education Act. No school is available for those who are under 16 and have finished the primary school, but do not want to go to a secondary school. This problem emerged more openly and had an impact on larger groups of the population only at the time when the generation of the demographic boom reached the traditional secondary schools. As it has been mentioned before, this event coincided with the onset of the economic crisis and the change of the political system.

First, the population of small towns and larger villages had to face the fact that their children were excluded from the traditional system of vocational/technical training. These are groups for whom the only prospect had been vocational training. Their needs are very similar to the interests of the local primary schools that feel threatened now that the demographic boom is over. Since 1990, about 200 primary schools have introduced the 9th and 10th grades which offer – besides the traditional subjects – training in housekeeping and farming. Certain schools in larger towns (e.g. in residential districts of Budapest) have followed suit. All this proves that schools today try not to depend on any sector of the economy and initiate projects that require very little investment. For the time being, there is a great interest in these new forms of education, but unfortunately these schools cannot issue certificates, and therefore, the marketability of the training is doubtful. This is the main reason why no prediction can be made on their future. However, it seems quite certain that – if school leaving age remains 16, as recommended in the new Education Act – similar solutions will become necessary and it is also probable that most new ideas will be introduced in villages and rural areas.

The traditional system of vocational training also makes efforts to adapt itself to the new economic conditions. Wherever possible, they try to improve the level of training, and introduce technical secondary classes or even grammar school classes. In the admission of new pupils, they tend to prefer those who have a contract with a company to support their studies and guarantee future employment.

Another reaction to the reduction of training capacities is the change in the curriculum whereby academic subjects are concentrated into the first two years (age-group 15–16) when there is no vocational training.

These changes in vocational training can be observed mainly in larger industrial centers where great training capacities had been developed for the industries that are now in crisis. (Schools training smaller number of pupils and mainly for the third sector reacted to changes in the labor market much earlier). It must be realized, however, that such solutions can only help mitigate the difficulties, but in the long run a much better co-operation is required between vocational training and the labor market.

The processes described so far – related to the vertical structure of society – affect the children of less educated groups of the society; viewed horizontally, the consequences are the worst for the agrarian, rural areas and those industrial districts that depended on only one, typically heavy industry. (The latter also has an indirect impact on the educational opportunities in rural areas, because these vocational schools meant the only training available for boys living in the gravity zones of towns or nearby villages).

An even more characteristic process is emerging in the grammar schools that undoubtedly represent the interests of urban, upper middle-class people, the so-called social elite. This new process is the establishment of new grammar schools and the extension of the so far four-year education to six or even eight. No statistical data are available on these new schools, but it is known that there are towns which will be left without a single traditional 4-grade grammar school, in others the old and new types (with 6 or 8 grades) are found side by side. (Grammar school can be organized by primary schools, institutions run by a church, a foundation, a local government or as a private school). This expansion of the grammar schools and the development that children have to decide on their future at an even younger age, express a great demand for education that has so far been suppressed.

Statistics prove that since the late 1960s, interest in grammar school education has been on the decrease all over the country (only 18–19% of an age group enrolled). On the basis of this trend, and advocating the ideological superiority of manual work, the prevailing educational policy could continue to disregard the peculiarity of the grammar school system, that we have referred to several times: the great social–regional differences, and discrepancies in the efficiency of education. This could be disregarded all the more so that the grammar schools in large towns – mainly the institutions with a high reputation – had to take as many as 40 pupils in a class simply because they could not resist pressure from the population, while grammar schools working in small towns and villages had difficulties with enrollment, and were forced to start classes with 18–20 pupils. (New secondary schools were established only in the late 1980s in preparation for the demographic boom, in Budapest and some larger towns).

It is most probable that the children of the elite will obtain a higher level of education in an exclusive isolation in the socially heterogeneous, comprehensive school system. The prevailing tendency in Europe is to separate the branches of education as late as possible; and our disintegrating primary school system can serve as a modern example for the implementation of a comprehensive system. There are very profound professional and social arguments against early selection. Decisions made on selection at the age of

10–12 can do more harm for those whose chances they narrow down than good for the few lucky ones.

6. Problems and prospects

Without repeating what has been said so far, I wish to point out some features of the transition that appear to be decisive.

The inflexible, highly bureaucratic organization of the Hungarian education is slackening. Local societies, pressure groups and teachers of individual schools now have more and more elbow room than before. For the time being, we can only see the vague outlines of an educational system that is more pluralistic, i.e. more flexible and adaptable than before. The spontaneity, the "bottom up" organization of changes can release forces whose existence has been unknown so far.

There are three main trends simultaneously present in the Hungarian educational system (just like in our society and economy): an evolutionist, a revolutionary and a restoring trend. Old structures have been maintained and even strengthened in many places, ready to develop and make compromises in order to survive. This manifests itself in the reestablishment of the village schools, and the transformation of the vocational schools. Several private and foundation schools are experimenting with the revolutionary transformation of the traditional forms of education. Finally, the efforts made at the reinstatement of the eight-grade grammar school can be evaluated as restoring tendencies. This situation is complemented with the crisis of vocational training, which can only be solved when the trends of economic development have become clear. These tendencies are the results of local, regional agreements and compromises, and not of a centrally determined policy. This is the main reason why it is so difficult to see clearly what is going on. On the other hand, it is reasonable to suppose that the long preparatory work related to legislation on education is due to the struggle among the conflicting trends and the social forces supporting them.

There are, of course, people for whom the introduction of business principles means losses. Unfortunately, the increase of the traditional social-regional differences seems to be inevitable. In regions dominated by the old socialist big industry and large-scale agricultural production, the lack of schooling opportunities for young people may cause difficulties. It would be absolutely necessary to have definite actions on the part of the government, especially in the safeguarding of the interest of backward areas. This, however, cannot be assumed by educational policy alone, but would require a complex regional policy.

A society that considers itself business-friendly, supporting the development of a market economy should give up nostalgia for village schools, the role of the village teacher as the "torch" enlightening people, and accept that higher education can only be acquired in exclusive isolation. The formal system of education cannot be expected to function as the only channel for upward social mobility.

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TRANSFORMATION TENDENCIES OF THE HUNGARIAN SYSTEM OF SETTLEMENTS

TÓTH, József

1. The temporal peculiarities of the transformation of the system of settlements after World War II

A) Some preliminary comments

The period after World War II has numerous general characteristics without which the peculiarities of the urbanization process might not be interpreted either. One of these is the widely known fact that, as a part of the European periphery, Hungary started from a very low level in the urbanization process and its system of settlements had extremely strong agrarian traditions. Another general characteristic feature is that after World War II Hungary, just like each of the neighboring countries, went through a very powerful extensive development phase bearing the signs of absolute concentration. It is also a general feature that as a concomitant of our ambitious socialist experiment made after World War II, the population mobility was growing at a rate unprecedented before, the people got freedom to move and even more readily freed of their own property, so there was no obstacle in the way of mobility growth.

The reconstruction following the devastation caused by the war remodelled the pre-war spatial structure of the country with the urbanized spaces in it, reestablishing, or rather increasing the attraction of the urban settlements which had temporarily vanished as a consequence of the war events. At the same time, the reconstruction amounted to the concentrated use of the available national income produced all over the country, which induced migration by means of the concentration of the job opportunities. The industrialization considered to justify the similarly concentrated capital use was launched after the Soviet model, resulting in a development which led to transmigration as well. The mobility of the population was influenced also by the fact that the infrastructure developments were related to industrialization

as well, that is the possibility of getting a job was connected with the greater likelihood of getting a flat as well (TÓTH, J. 1988).

In addition to the urbanization of the industrial spaces, each of the previous factors appeared as a source of attraction. The "stimulation" of migration from the rural spaces had a similar but also stormy impact, first of all by means of the transformation of the agriculture into large-scale farming estates as well as by the forced destroying of small production and the negligence of rural development. Attraction on the one side, repulsion on the other together induced massive population movements from the agrarian regions of the country to the area along this industrial axis which became the axis of urbanization at the same time, impeding for a long time the peculiar traditional mechanism by means of which the peasant-bourgeois urbanization in the "market-towns" continued (BECSEI, J. 1973).

Ideology was a peculiar general element of the urbanization process which took place after World War II (although it did not have an effect of equal intensity in each period). The point is that since the objective was the building of such a proletarian society in which the working class had a leading role, the place of residence of the working class, namely the town is the settlement given preference at all costs, for the simple reason that this is the place where the working class lives. This position of ideological charge had a number of consequences in the subsidization system, in the judgement of certain phenomena, etc.

A general characteristic of the urbanization in these decades is also that it spread not only to Budapest as in the period prior to World War I, but it also affected the provincial towns. This is even more so because we prevented the development of Budapest in an administrative way as well (moving to Budapest as a place of residence had strict stipulations). It is another question that consequently on the administrative limits of the just established Greater Budapest the formation of agglomeration started and accelerated.

These few decades in the domestic urbanization process resulted in the extremely favorable situation and rapid growth of the industrial cities. This is also shown by the fact that the already existing towns turned into industrial ones at a quick pace and new so-called "socialist" industrial towns came into being. Because of the functional one-sidedness of the latter, very serious development problems arose later on (SZIRMAI, V. 1988).

Since the period after World War II functioned in terms of the dominance of an extremely centralized model, the decision-making role of Budapest became greater than ever before and the county seats also obtained a similar position – one level lower. This basic situation was accompanied by the

favorable assertion of the interests of the administrative centers, and the affected settlements were brought into a favorable position within the urbanization process.

B) Peculiarities of the 1950s

By the end of the 1940s, the post-war reconstructions had taken place, the large-scale forced and voluntary population movements had come to an end and the country had been consolidated. Thus, the urbanization process of the 1950s was free of the external influencing factors and as such can be characterized by the changes having taken place and been registered between the two national censuses (of 1949 and 1960).

In the beginning of the period, there were 54 towns in Hungary, three of which – naturally apart from the capital – had a population over 100,000. The urbanization process was relatively slow and sharply differentiated from the regional aspect. In the course of the decades, the number of the towns rose to 63, while the proportion of the urban population grew from 36.8% to 39.7%. The number of the communes did not alter significantly (it was 3,211 in 1949 and became 3,210 in 1960), but the population living in them decreased from 63.2% to 60.3%. This decrease in proportion within the country of a rapidly changing population number was accompanied by the fact that the number of the population living in the communes could grow. From among the structural characteristics, it may be highlighted that in the 1950s mainly the medium-sized towns were growing and the population of the communes increased in general (mostly as a result of the high natural reproduction). In this, period the number of the smaller settlements practically did not change, yet the process of the appearance of tiny villages had not already started (*Table 1*).

C) The 1960s

By the 1960s, the mobility of the population had improved, the migration accelerated and the process of concentration had been strengthened.

Table 1
Data of the census of 1949

A) The data of towns 1/01/1949

		Towns		
		Number	Total population	In the percentage of the country's population
Budapest		1	1,589,065	17.3
100,000	—	3	355,920	3.9
30,000	— 100 000	19	843,295	9.2
30,000	—	31	601,655	6.5
Altogether		54	3,389,935	36.8
Total without Budapest		53	1,800,870	19.6

B) The data of communes 1/01/1949

		Communes		
		Number	Total population	In the percentage of the country's population
30,000	— 20,000	3	75,794	0.8
19,000	— 10,000	50	64,073	7.0
9,999	— 5,000	150	1,030,100	11.2
4,999	— 2,000	644	1,979,036	21.5
1,999	— 1,000	860	1,213,392	13.2
999	— 500	901	663,458	7.2
500	—	603	209,011	2.3
Total		3,211	5,814,864	63.2

As opposed to Budapest, which was impeded in its development, the provincial towns became the nodes expressed also in terms of the population concentration of urbanization. At the same time, this is the decade when the development of the Budapest agglomeration became speedy. This phenomenon can be detected mainly in the fate of Érd. This settlement-formation clinging to Budapest had more than 30,000 inhabitants by 1970 and when its town status is announced, with its 40,000 inhabitants it will be the largest settlement of commune status in Europe.

In the course of decades, the number of the towns grew by 13, while that of the communes decreased by 75. The main reason of the decrease is annexation to towns and the unification of certain settlements having the legal status of communes. By 1970, the number of towns with a population over

100,000 had reached five and 46.5% of the country's population became urban inhabitants. The absolute decrease in the population of the communes also commenced: in 1970 only merely 5.5 million inhabitants were living in settlements of commune status.

D) The 1970s

Although during this decade the population of Budapest was still on the increase, its proportion was on the decrease as compared to the total population of the country. At the same time, in the provincial towns the rapid growth of the population could be observed, among them the number of those with a population of 100,000 had arisen to seven by 1980. The latter figure grew as compared to the 76 in 1970, there were 96 towns in 1980 in Hungary. In the population census of 1980 it was registered for the first time that the urban population was in the majority (53.2%) in Hungary. In this process a significant role was played by the National Settlement Network Development Conception which has been criticized by a lot of well-known specialists of the field in the technical literature (BALOGH, B. – KÓRÓDI, J. – WIRTH, Gy. 1971; BARTKE, I. 1980; BIBÓ, I. 1975; BOROS, F. – LACKÓ, L. 1984; HAJDÚ, Z. 1989; KŐSZEGFALVI, Gy. 1985; LACKÓ, L. 1988; TÓTH, J. 1983; ZALA, Gy. 1981). In this decade the process of the formation of tiny villages became marked: in 1980, more than half of the Hungarian settlements had less than 1,000 inhabitants.

E) The 1980s

This decade was extremely complex concerning urbanization as well. In the beginning centrally induced processes supporting concentration were asserted, but these were accompanied by an increasing social discontent. In the middle of the decade, even if in a contradictory way, there seemed to be a real chance for the development of the small regions with preference given to the small towns. The end of the decade was already preparing for the social changes to occur in the 1990s with respect to the urbanization process as well.

In the course of the decade, the number of Hungarian towns grew by 70, an extent never seen or experienced before. Mainly as a consequence of this, the proportion of the urban population was close to 62% in 1990. At the other pole, the process of the formation of tiny villages was going on: in nearly one-third of the stock of communal settlements, in 950 settlements, the population was below 500 (Table 2). We are going to deal with the peculiarities of the urbanization of the decade also in a later chapter.

F) An overview of the whole period

The period from 1949 to 1990 brought about a change concerning both the quantitative and qualitative aspects of urbanization. The number of the towns grew from 54 to 166 (it had reached 180 by 1992!), the predominance of Budapest decreased somewhat and the ring of the regional centers (with a number of functional deficiencies) had been established.

Table 2
Data of the census of 1990

A) The data of towns 1/01/1990

			Towns		
			Number	Total population	In the percentage of the country's population
Budapest			1	2,016,774	19.4
100,000 –		Towns	8	1,208,981	11.7
30,000 –	100 000	with	29	1,404,253	13.5
30,000 –		specified	128	1,787,265	17.2
Altogether		population	166	6 417,273	61.9
Total without Budapest			165	4 400,499	42.4

B) The data of communes 1/01/1990

			Communes		
			Number	Total population	In the percentage of the country's population
10,000 –	19,999		16	211,600	2.0
5,000 –	9,999	Communes	92	604,566	5.8
2,000 –	4,999	with	481	1,424,010	13.7
1,000 –	1,999	specified	652	932,296	9.0
500 –	999	population	713	519,349	5.0
500 –			950	265,729	2.6
Total			2,904	3,957,550	38.1

At the same time, the framework of the leading elements of the settlement network forming a double ring was also established, to which other elements of the network of settlements could be linked in a multi-faceted way. The number of towns with a population of more than 100,000 grew from three to eight, and the group of the medium towns (with a population over 30,000) increased, too. Although there are debates concerning the efficiency of the network of small towns, it may not be questioned in any way that the number of the latter has shown a fourfold growth (DÖVÉNYI, Z. 1984).

The stock of settlements has been polarized. While on the one side the urban concentration has grown, on the other side the decrease in the number of the communes could be registered with a parallel decline of the population living there below 4 million. There was an increase in the number of the communes with a smaller population (from 503 to 950), but this is exactly what indicates a reduction in a part of the stock of settlements and the strengthening of the formation of tiny villages.

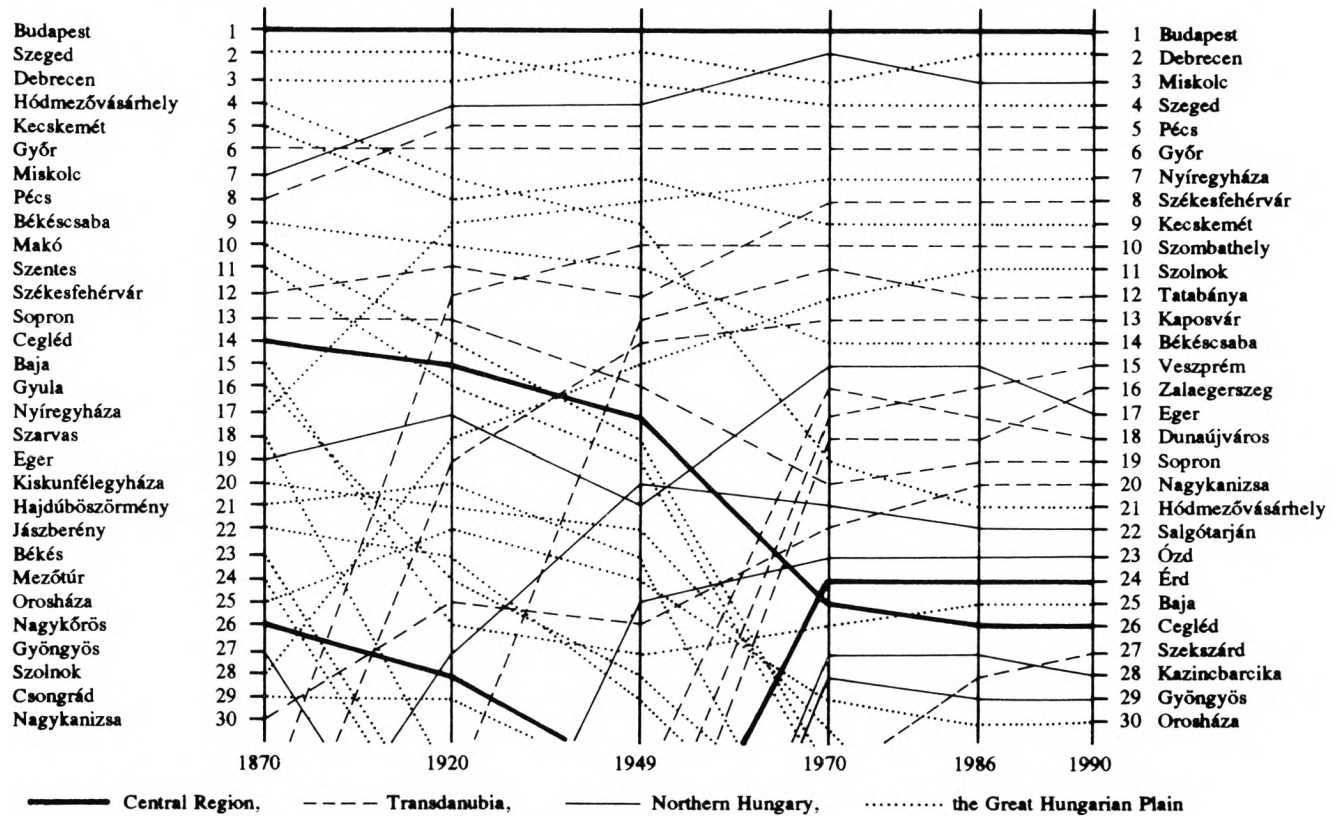
As a consequence of the varying pace of the changes in the number of inhabitants, within the group of the leading Hungarian cities and towns an internal rearrangement, a change in the ranking continued. The peculiarities of this process are mainly revealed by an investigation according to regions (*Figure 1*).

2. Regional peculiarities in the development of the network of Hungarian settlements after World War II

The regional differences which can be observed in the Hungarian urbanization process have come into being during a longer period as well as its consequences that according to the system of the center-periphery relations there is a general difference in development between the western and eastern parts of the country. This difference emerges partly in the qualitative features, partly in the fact that in the eastern part of the country some processes take place with some delay as a rule, that is under fundamentally changed conditions. It also can be regarded as traditional that the capital of Hungary is an innovation center with an influence extending to the whole of the country, furthermore, to a good part of the Carpathian-basin, despite the situation of the frontier set up after World War I, therefore it also has a key role in the innovation process.

The regional peculiarities formed during these long periods continued to survive in the decades following World War II, in part they were modified and complemented by new elements.

Figure 1
 Change in the ranking of the leading towns according to the number of inhabitants



A) Macroregional differences

During the decades following World War II, the number of the population of Hungary rose by more than one million. This growth was not uniform on the macro-regional level either (KRAJKÓ, Gy. 1968). The growth in the number of the inhabitants in the Central Region by 0.7 million is noteworthy and it suggests that a centralized model was being asserted in the country and that Budapest played a decisive role. Growth could be observed in Transdanubia and Northern Hungary, while the Great Hungarian Plain was characterized by a drop in the number of inhabitants in the same period, losing its natural reproduction of four entire decades, which meant half a million inhabitants at least (*Table 3*).

Table 3

Comparative basic data of the regions (macro-regions) of Hungary

	Area (km ²)	Population (1000 people)					Population density 1990 people/km ²
		1949	1960	1970	1980	1990	
Central region	6,919	2,277	2,589	2,880	3,034	2,966	429 *
Transdanubia	36,673	2,769	3,000	3,089	3,221	3,142	86
Northern Hungary	13,429	1,162	1,312	1,354	1,400	1,324	99
Great Hungarian Plain	36,015	2,997	3,060	2,999	3,055	2,943	82
Altogether	93,036	9,205	9,961	10,322	10,710	10,375	112

* without Budapest, 149 people/km²

On the basis of the examination of the long-term trends relating to the individual regions, we can conclude that the advance of the Central Region has been spectacular and lasting for centuries. The share of the Great Hungarian Plain is shrinking, while the other two macro-regions preserve their role over the long run (*Table 4*).

The level of urbanization and the different peculiarities show that there are macro-regional differences in Hungary. According to the condition of 1990, 166 Hungarian towns were located in the macro-regional spaces with a differing density and a varying number of population. Concerning the latter,

Table 4

The share of the regions of Hungary in the total population of the country (%)

Region	1784/87	1869	1920	1949	1970	1990
Central region	8.9	12.6	22.5	24.7	27.9	28.5
Transdanubia	46.8	38.5	32.0	30.1	29.9	30.4
Northern Hungary	18.3	14.2	12.7	12.6	13.1	12.7
Great Hungarian Plain	26.0	34.7	32.8	32.6	29.1	28.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

the Central Region is in the lead, here four-fifths of the population live in towns. As opposed to this, the proportion of the urban population in Northern Hungary does not reach 50%. There are essential differences among the regions with regard to the absolute and specific numbers of the communes and the average number of the inhabitants. (The number of the inhabitants in an average commune of the Central Region is fourfold of that of a commune in Transdanubia). As a consequence of the regional differences, there are differences in the number of communes per town as well. In this respect, the difference between the Great Hungarian Plain and Transdanubia is threefold. Naturally, manifestations of the urbanization process are asserted on the basis of these regional differences and may become components of further differences (Table 5).

Table 5

Comparative data of the stock of settlements – the regions of Hungary (1990)

Region	number	Towns		number	Communes		Number of communes per town	Proportion of urban population (%)
		number per 1000 km ²	average population		number per 1000 km ²	average population		
Central region	15	2.17	156,029 *	167	24.1	3,749	11.1	78.9
Transdanubia	62	1.69	27,620	1,607	43.8	890	25.9	54.5
Northern Hungary	26	1.94	25,336	559	41.6	1,190	21.5	49.8
Great Hungarian Plain	63	1.75	27,086	565	15.7	2,189	9.0	58.0
Altogether	166	1.78	38,663 *	2,898	31.1	1,365	17.5	61.9

* without Budapest: 23,165

** without Budapest: 26,679

B) Urbanization and spatial structure

It is a well-known fact that Hungary has a monocentric spatial structure with Budapest as its center, which has an outstanding transport-geographical position, hierarchical level and function. The capital is the point of departure of radial spatial structural lines along the main traffic corridors to the neighboring countries. The social-economic space has a dense texture along these lines of the spatial structure, while the intermediate spaces have a sparser texture. As a consequence of this spatial structural system, and because the traffic corridors converge in Budapest, the space of dense texture becomes continuous, while moving away from the center, we can find more and more extensive spaces of sparse texture.

This framework of spatial structure also bears of the regional consequences of the urbanization process, thus it can be regarded as the urbanization framework of the country as well. It deserves attention that the western and north-western parts of the country have a denser texture (being thus more urbanized) than the eastern parts. This fact is related to the continental center-periphery system, showing the system of the spatial conditions of innovation diffusion and playing a decisive role also in the regional aspect of urbanization (*Figure 2*).

In the case of a spontaneous development (or development following the line of least resistance and based on the endowment) the spatial structure of the country will be reconstructed. The changes accompanying the development will not result in significant differences which have only the value of modifications. Conscious interference, fundamental changes are required for the spatial structure to alter significantly and the urbanization framework to be transformed thereby. Such may be the construction of the road and railway corridors connecting Szolnok with Székesfehérvár and thereby the creation of transportation by-passing Budapest, the activation of the north-south reach of the Danube, or the construction of the Southern Motorway shown in our figure (TÓTH. J. 1992b). (*Figure 3*).

The selection of the settlements which are to obtain a role in the public administrative division and have a function in public administration has always played an essential role in urbanization. This role is particularly strengthened within the framework of a system which is centralized and performs the redistribution of the national income and the development funds through the county seats.

Figure 2
Spatial structure of Hungary

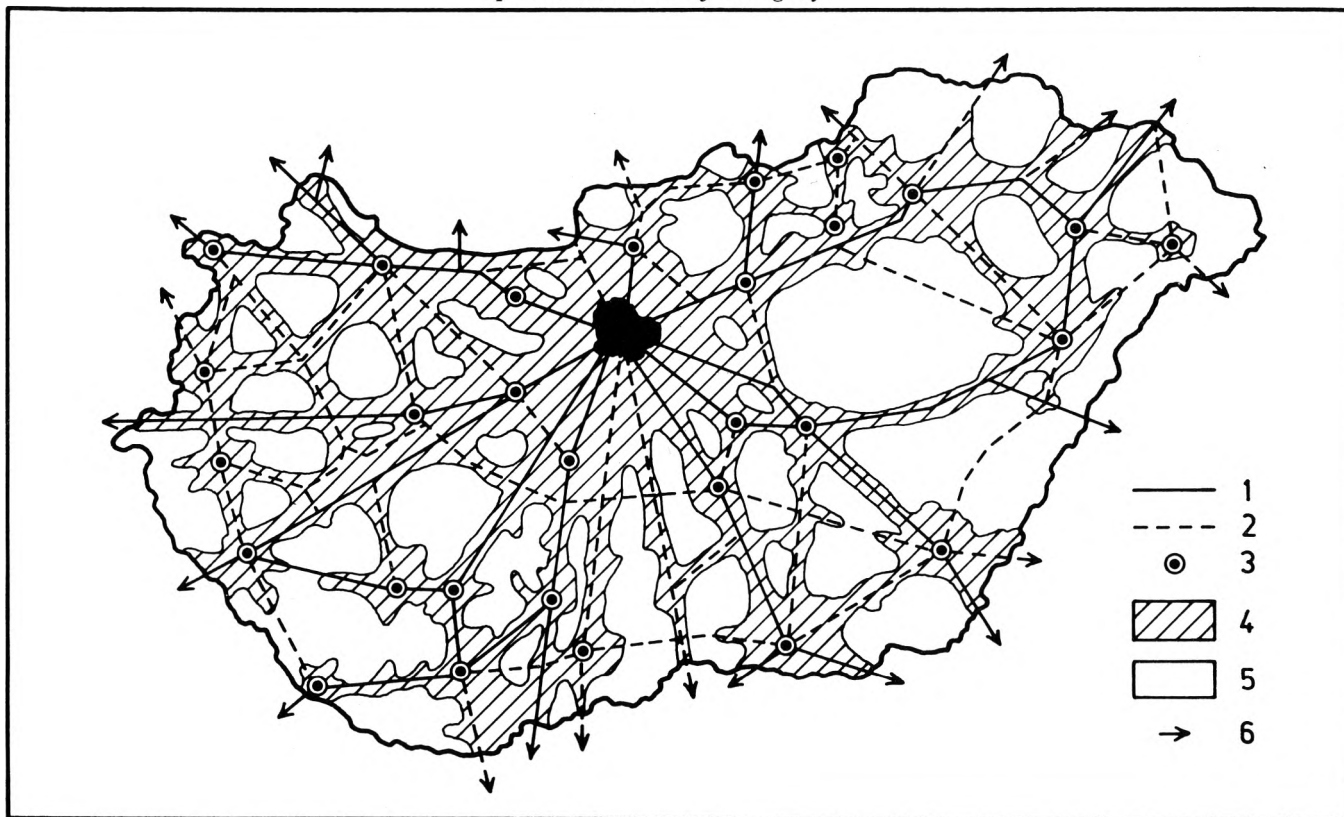
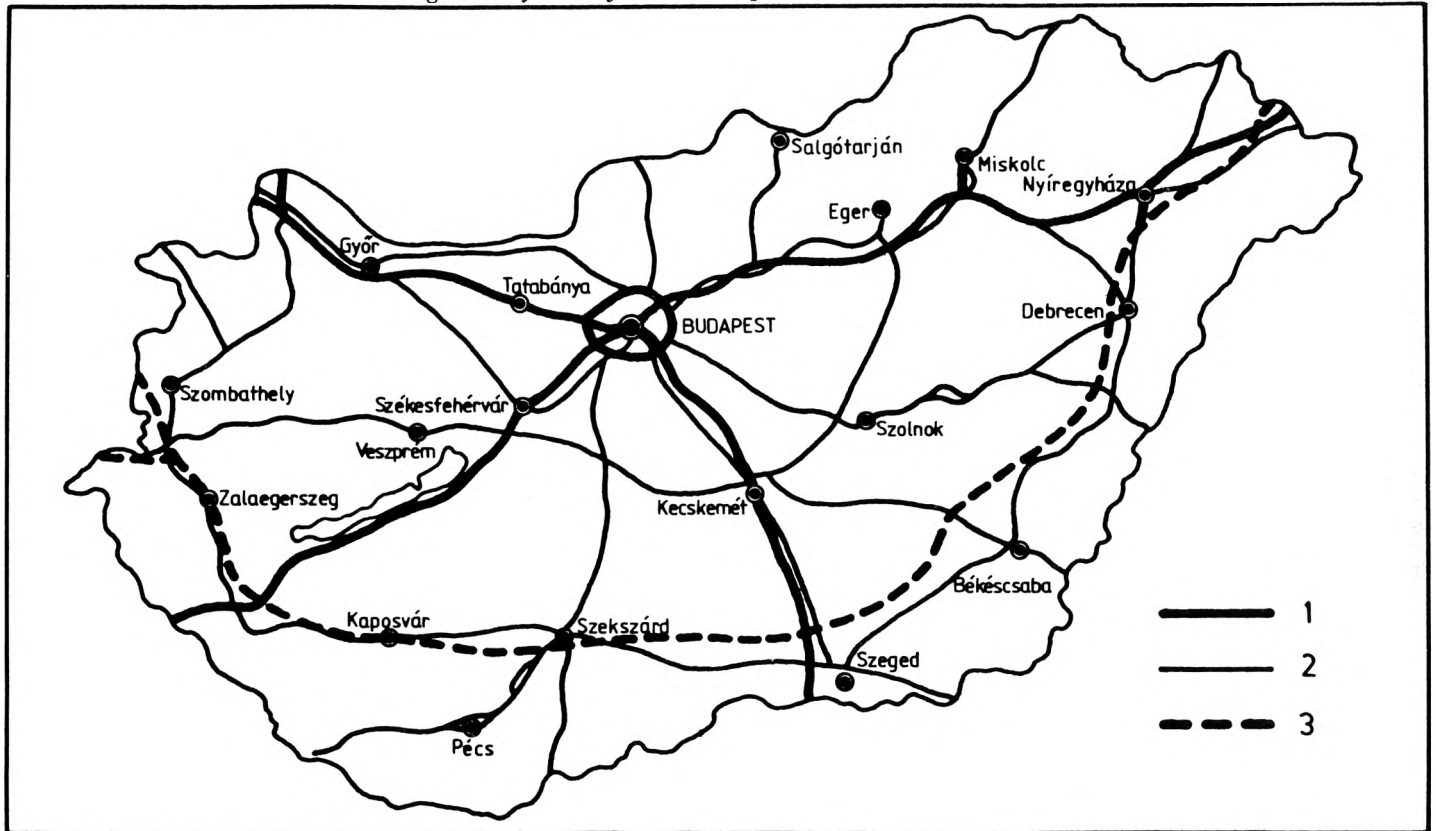


Figure 3
Long-term system of road transport in Hungary



Key: 1 – motorway; 2 – motor road; 3 – Southern Motorway.

There is no doubt that this peculiarity has played an important role in the urbanization process of the past decades. Consequently, the Hungarian county seats became marked elements of an efficient network of medium-sized towns. (It is another matter that chiefly in the seventies it contributed to the scarcity of development funds to the network of settlements at the lower hierarchical levels, the mere stagnation and struggling of these settlements for survival).

Nowadays, it is not clear what role the prefect of the Republic and their offices will play in the decision-making sphere and in regional and settlement development in particular. Therefore, it is difficult to predict what stimulation will the seats of the republic's delegates get in the urbanization process by means of this function (*Figure 4*).

It is generally accepted in the Hungarian technical literature that on the basis of the regional division of labor and its spatial structure Hungary can be divided into four large regions. These regions, however, do not have centers and since no administrative-organizational functions have been allocated to them, they rather have a number of centers. Consequently, the big regions do not provide the organizational centers with additional urbanization energies, or these energies are divided among several spatial centers. The situation is similar in the spatial structural units of the regions, a fundamental change would take place only if administrative functions were assigned to them. In this respect we could mention by way of evidence the case of those spatial structural units (e.g. Szombathely, Nyíregyháza) where there is a coincidence between the spatial structural units and the administrative regions.

In the decade from 1980 to 1990, urbanization continued to develop, and announcements of town status increased as well. From this aspect, this decade was similar to the former ones, only the announcement of town status in dozens of cases can be regarded as a new peculiarity. On the other hand, another peculiarity is that the total population of the towns decreased. This is a new situation which had never occurred in Hungary before with the exception of war-time. At the same time, there was growth in the proportion of the urban population (even if the data of the 166 towns existing in 1990 are projected back), because the population of the communes decreased even to a greater extent.

The decrease of the population also affected the largest Hungarian cities. Out of the 15 most densely populated cities the number of the inhabitants of five declined, that of Miskolc most of all (*Table 6*).

Table 6

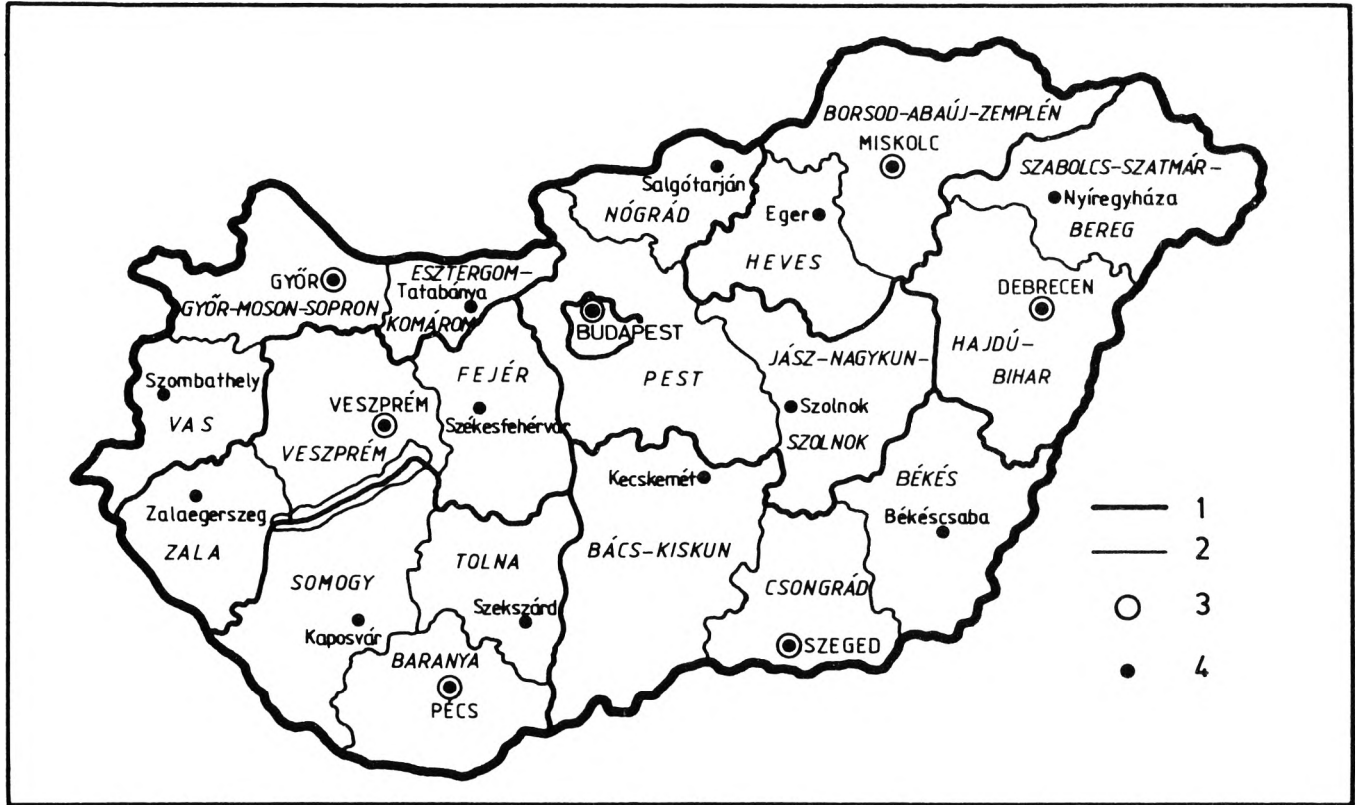
Most densely populated Hungarian towns from 1980 to 1990

	Number of inhabitants		Change (%)
	1980	1990	
1. Budapest	2,059,347	2,016,132	-2.1
2. Debrecen	198,195	212,247	+7.1
3. Miskolc	20,1103	196,449	-5.6
4. Szeged	170,794	175,338	+2.7
5. Pécs	169,134	170,119	+0.6
7. Nyíregyháza	108,235	114,166	+5.5
8. Székesfehérvár	103,571	108,990	+5.2
9. Kecskemét	96,828	102,528	+5.9
10. Szombathely	82,851	85,418	+3.1
11. Szolnok	75,362	78,333	+3.9
12. Tatabánya	75,971	74,271	-2.2
13. Kaposvár	72,377	71,793	-0.8
14. Békéscsaba	68,612	67,621	-1.4
15. Veszprém	57,249	63,902	+11.6

A close correlation was formed between the hierarchical level and the growth dynamics of the towns in the period of extensive growth during the last decades. Recently, however, this regularity has got confused, relatively big towns turned into settlements with a decreasing population, while some smaller towns started to show a dynamism which is characteristic of the big cities. All these conceptions should be understood in terms of the Hungarian conditions and their interpretation is by no means unambiguous (*Figure 5*).

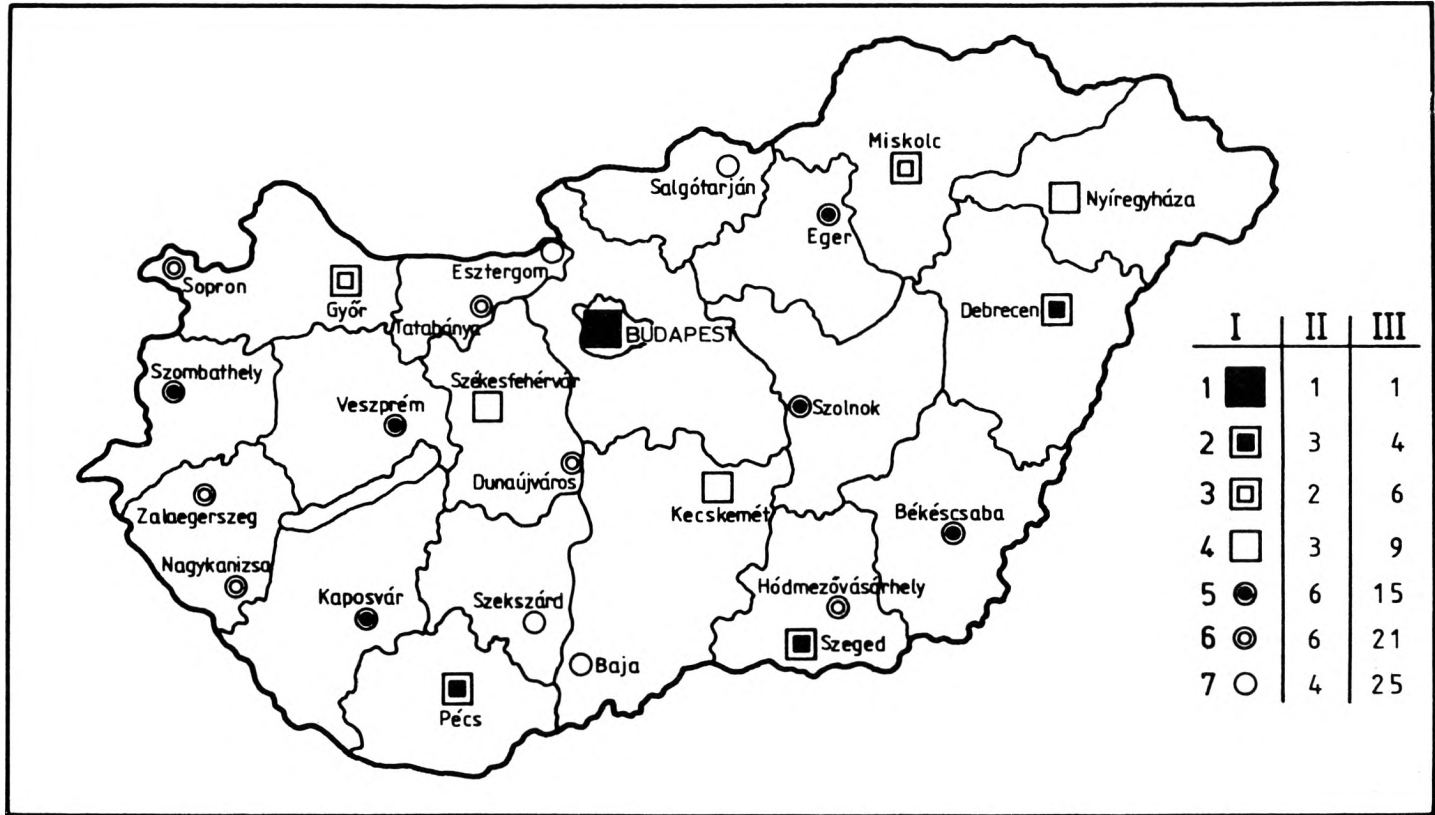
The significance of central preferences was reduced as a consequence of the social-economic changes and they practically ceased to exist. This resulted, among others things, in the development of Hungarian towns on the basis of the positions obtained earlier, the differentiation between them greatly slowed down. The characteristic size categories of the cities and towns were hardly altered at all. Some towns, of course, preserved their dynamics, but if we take a closer look at the group of the leading cities, it can be concluded that the regional centers, county seats, settlements of the Budapest agglomeration as well as the towns situated along Lake Balaton can be found among the 15 settlements which are outstanding with the highest absolute growth in the population.

Figure 4
The counties and administrative units of Hungary



Key: 1 – boundary of administrative region; 2 – county boundary; 3 – seat of administrative region; 4 – county seat.

Figure 5
Possible classes of big cities in Hungary



Key: 1 – capital; 2 – actual regional centre; 3 – partial regional centre; 4 – other town a population over 100,000; 5 – county seats with functions extending over their respective county; 6 – town with a low number of inhabitants but having similar functions to the one above; I – classification; II number of towns belong to the classes, III number of towns.

Interesting comparisons can be made if we examine the differentiated changes of the population in the settlements according to the various functional and size categories on the long and short terms, focusing on the last decade (*See Table 7*). During the last decade, the direction and pace of the changes were not unambiguously determined by the hierarchical level and the size category, but rather the position occupied within the network of settlements became a decisive factor. The most important settlement formations (groups, clusters of settlements, agglomerations) became separate elements in the network of Hungarian settlements on the basis of the dynamism (*Table 8*).

Table 7
Peculiarities of changes in the number and components of the inhabitants according to groups of settlements (1890–1990)

Group of settlements	Area km ²	Population (1000)				Live-births	Changes of the 1980's (%)				Number of inhabitants	Population density people/km ²	Change in the population from 1870 to 1990
		1870	1910	1949	1980		Deaths	National reproduction	Migration difference	Actual reproduction			
1 Capital	525.17	302.1	1,110.4	1,590.3	2,059.3	10.1	14.9	-4.8	+2.7	-2.1	2,016.1	3,839.0	667.4
2 County seats	3,384.05	409.5	772.8	986.7	1,813.1	13.2	11.3	+1.9	+0.0	+1.9	1,854.6	548.0	452.9
3 Other towns with > 20,000 inhabitants	6,767.82	548.0	778.3	893.9	1,346.5	12.8	12.2	+0.6	-3.5	-2.9	1,307.0	193.1	238.5
4 Other towns with < 20,000 inhabitants	9,871.55	597.9	856.1	983.5	1,215.3	13.6	12.5	+1.1	+0.9	+2.0	1,238.6	125.5	207.2
5 Other towns together (3+4)	16,639.37	1,145.9	1,634.4	1,877.3	2,561.8	13.2	12.4	+0.8	-1.4	-0.6	2,545.6	153.0	222.1
6 Provincial towns (2+5)	20,0023.42	1,555.4	2,407.2	2,864.0	4,374.9	13.2	11.9	+1.3	-0.7	+0.6	4,400.2	219.8	282.2
7 Communes (> 10,000 inhabitants)	952.19	51.5	96.3	151.0	222.3	12.3	12.9	-0.6	-4.2	-4.8	211.5	222.1	410.7
8 Communes (5000–9999)	6,476.67	307.5	467.0	587.3	625.0	13.0	13.7	-0.7	-3.3	-4.0	600.6	92.7	195.3
9 Communes (1000–4999)	40,845.2	1,752.2	2,314.5	2,732.2	2,511.1	12.4	14.4	-2.0	-4.7	-6.7	2,343.1	57.4	133.7
10 Communes (up to 999)	24,209.1	1,042.6	1,216.7	1,280.0	16.9	11.3	16.0	-4.7	-7.7	-12.4	803.8	33.2	77.1
11 Communes altogether (7+8+9+10)	72,483.2	3,153.8	4,094.5	4,750.5	4,275.3	12.3	14.6	-2.3	-5.1	-7.4	3,959.0	54.6	125.5
12 Hungary (1+6+11)	93,031.3	5,011.3	7,612.1	9,204.8	10,709.5	12.2	13.6	-1.4	-1.8	-3.2	10,375.3	111.5	207.0

Table 8
Comparative data on the most important settlement formations of Hungary
(groups, clusters of settlements, agglomerations)

Settlement of formation	Type*	Number of settlements	Number of inhabitants (1000)		Change %	Share of the formation in 1990 (%)				Proportion of the central settlements %
			1980	1990		in the total population		in the provincial population		
1. Budapest	A	92	2,680.7	2,634.8	-1.7	25.4	41.2	—	—	76.5
2. Debrecen	Tm	16	337.8	349.6	+3.5	3.4	5.5	4.2	9.3	60.7
3. Miskolc	A	16	297.8	287.3	-3.5	2.8	4.5	3.4	7.6	68.4
4. Pécs	A	62	213.8	214.7	+0.4	2.0	3.4	2.6	5.7	79.2
5. Szeged	Tm	9	195.3	199.0	+1.9	1.9	3.1	2.4	5.3	88.1
6. Győr	Tm	29	181.8	186.2	+2.4	1.8	2.9	2.2	4.9	69.5
7. Kecskemét	Tm	18	160.0	162.4	+1.5	1.6	2.5	1.9	4.3	63.1
8. Nyíregyháza	Tm	12	157.0	161.9	+3.1	1.6	2.5	1.9	4.3	70.5
9. Békéscsaba**	Tp	9	163.8	161.5	-1.4	1.6	2.5	1.9	4.3	41.9
10. Szolnok	Tp	11	151.8	152.4	+0.4	1.5	2.4	1.8	4.0	51.4
11. Tatabánya	Tp	15	140.9	141.2	+0.2	1.3	2.2	1.7	3.8	52.6
12. Székesfehérvár	Tm	17	134.4	139.8	+4.0	1.3	2.2	1.6	3.7	78.0
Together	—	306	4,814.1	4,790.8	-0.5	46.2	74.9	—	—	71.9
13. All formations	—	632	6,438.7	6,400.1	-0.6	61.7	100.0	—	—	70.7
14. Provincial formations	—	540	3,758.0	3,765.3	+0.2	36.3	58.8	45.0	100.0	656.5
15. Other settlements	—	2,432	4,270.8	3,975.2	-7.0	38.3	—	47.6	—	—
16. Hungary	—	3,064	10,709.5	10,375.3	-3.1	100.0	—	—	—	19.4

* A = agglomeration; Tm = monocentric cluster of settlements; Tp = policentric cluster of settlements

** Cluster of settlements in the central part of Békés

4. Prospective development trends

On the basis of our knowledge about the peculiarities of our system of settlements and change, in the influencing factors, it is possible to give an outline of the tendencies which are likely to be asserted in the development of both the whole system of the Hungarian settlements and the individual elements of the network.

A) Changes affecting the whole system

The most decisive change would be if the system of settlements were functioning more and more as a real system. There is no doubt, that the subsystems will continue to preserve the fundamental elements of their previous peculiarities, but in the character and mechanism of their functioning, they will approach each other as well as the system of relations between the subsystems (of the system of settlements of the individual regions).

The characteristic types of relations which can be separated within the system of settlements will be transformed, too. It is noteworthy that while we may speak about the strengthening of the system of horizontal relations in general, in the formerly less hierarchical system of settlements of the Great Hungarian Plain the relations of hierarchical character will be reinforced more and more. Transformation in the content of the system of counties will enhance the role of the counties in regional and settlement development, thus putting an end to the process which started to make the county boundaries determinant in the division of the national system of settlements into subsystems. The gradual creation of the development conditions of small regions strengthened the foundations of the horizontal relationships already in the last decade. It can be taken for granted that the establishment of the system of self-government will be particularly beneficial to the versatility of the types of relations and their diffusion.

In parallel with this process, the strengthening of the relations between the center and the gravity zone may be prognosticated. In general, the system of settlements will be more articulated and multi-faceted with regard to the types of relations.

The texture of the system of settlements will be further differentiated in the future. The regional concentration which is the result of the urbanization process will go on, thus the settlement formations established as a result of it will increase in significance. The process of agglomerating around the capital and other settlements of a higher hierarchical level will continue, and other

groups and clusters of settlements will come into being. In the final evaluation, the texture types representing concentration will have a greater weight within the system of settlements of the country, creating its most dynamic parts. A higher and higher proportion of the population will live in these texture types, and the concentration of the production capacities, tertiary and quaternary functions will continue as well.

At the same time, the differentiation will take place also in a way in which the sparse spots of the texture move along the path of further emptying. The process of the formation of tiny villages, the liquidation of the system of isolated farmsteads at a varying pace, the depopulation of the frontier regions, the marked nature of the internal peripheries all can be regarded as such changes.

The Hungarian system of settlements was not formed within the present frontiers of the country. The frontiers set up by the Treaty of Trianon meant an artificial frontier within a formerly uniform system. Links, often definitely strong centre-gravity zone relations, were cut apart by the frontier and consequently the system of relations was mutilated and made one-sided. It is beyond doubt that despite the hypocritical slogans of the past decades no normal connections were formed between the neighboring countries on the two sides of the frontier. Consequently, the relationships existing within the system of settlements could not be revitalized either. The political changes having occurred in Eastern-Central Europe seem to give a favorable basis for the free crossing of our frontiers. Undoubtedly, one version is that we shall open more and more frontier stations, the mutual flow will be more liberal and stronger, the co-operation regular and thus, among others, the "mutilation" of the system of settlements may be relieved. Although the realization of this variant serves the common interest of all affected countries and neighboring regions, its implementation can be imagined only in terms of a long period.

The other possible option in development is the shift of the Iron Curtain which used to function on the western frontier of Hungary for long decades to our eastern frontiers. Hungary (together with its northern neighbors) initiates co-operation with this part of Europe coming closer and closer to the development model of the Western European type, and if Serbia, Rumania and Ukraine are unable to achieve the same, the Great Hungarian Plain (and thereby the country) will become a frontier region again, though in a different sense. In that case the filter protecting Europe from the inflow of people from the East would be built up along the frontier on the edge of the Great Hungarian Plain. It is beyond doubt that this variant would be highly unfavorable for the system of settlements of Hungary and the Great Hungarian Plain above all (TÓTH, J. 1992a).

Development probably will not produce sharply separated variations, but the period of slow changes will be a long one. In them, the linear systems of the infrastructure (chiefly motorways), the construction of which can be found in several plans, will obtain an important role, ensuring high-capacity connections not only between the countries but also between the borderland regions. The influence of these in the re-shaping of the system of settlements within the country and from the international aspect cannot be overestimated.

The artificial elements of the internal division of the system of settlements will gradually lose significance in the future. The function of the counties has been transformed, in the system of relations the local initiatives play an increasing role. The infrastructural connections which were missing earlier will be established along the frontier. We may also expect that the development of the infrastructure will result in the greater density of the road network, the construction of bridges which in turn will remove the obstructive character of the big rivers and thereby the system of settlements may become uniform at these points, too.

On the whole, we may prognosticate that within the system of settlements there will be further growth in the weight of the elements of higher hierarchical level and the whole system will be shifted upwards along the hierarchical concentration scale.

B) Elements of the system

In connection with the future development of the Hungarian system of settlements, we may establish that there will be further differentiation in the elements of the system on the basis of both their functions and infrastructural-environmental features. Perhaps it is not useless to survey the various types of these elements from the aspect of their probable future development.

With regard to the regional centers, the historically formed situation in which five regional centers are functioning in Hungary will not change in the future. Although it is possible that the five settlements will cede some functions to other settlements, or fill these functions together with other centers in co-ordination, in no way would any settlement reach such a development level which could rival the level of the regional centers. Within the Hungarian system of settlements besides Debrecen and Szeged, Pécs has such a developed system of institutions which would justify its being called a regional center in its own right. Miskolc and Győr already have a less certain position.

Along the Vienna–Budapest axis, Győr may also perform stronger and stronger international regional functions. The system of relations of Pécs with Slovenia and that of Miskolc with Slovakia have a long-standing tradition.

Debrecen and Szeged may have an important part in the international regional co-operation. Debrecen may play a particularly important part in the formation of the Carpathian-Tisza Region, but beyond that it may be a significant transmitting center of innovations towards Ukraine and Transylvania. Szeged may take part in regional co-operation with Rumania and Serbia and become the scene of innovation transfer towards the Balkans.

In the future, no change can be expected in the number of the members of the paracentric group separated on the basis of former investigations. The combined role of the centers of this category (continuing the tendency of the past decades) will increase in the future. Recently, there has been a change also in the administrative status of these settlements.

First, Székesfehérvár, Nyíregyháza and Kecskemét were granted county status (by right of more than 100,000 inhabitants each) and after the introduction of the Act on Self-Government the other towns with populations of more than 50,000 got a similar legal status. Baja, Salgótarján, Szekszárd and Esztergom with a population of less than 50,000 do not belong to the exclusive group of towns with county status.

In the fates of these towns, differentiation is becoming more marked. Several of them have to face the options of either shaping their own functional aspects, or establishing their effective gravity zones of the adequate hierarchical level, or becoming depositories of the functions delegated by Budapest. In the strategy of these towns (settlements of the internal ring) the search for an independent way should get a determinant role, as well as the establishment of the functions which are components related to this way and the development of the system of institutions.

In the configuration of the Hungarian system of settlements the other paracenters are situated in the greatly important external ring. Out of these Nyíregyháza is opened towards Rumania and Baja towards Yugoslavia and they may fulfil, a role which is by far not merely of a transport-traffic character, but also has a great importance in the innovative processes. These functions might obtain a particular significance, if the more unfavorable variant won on the other side of the Great Hungarian Plain at the frontier, that is if the switch of regime took place slowly and partially, or came to a deadlock. (Kaposvár, Zalaegerszeg, Szombathely and Sopron also have favorable international positions).

In the earlier investigations more than 100 mezocenters were separated in the country. As a result of the accelerated process of gaining town status, each of them have the legal status of towns today. On the whole, we can say

that their possibilities will expand in the future. As to their size, they are big enough to form multi-faceted functions and to operate a differentiated system of institutions, but still small enough to be harmonized and become habitable from the human viewpoint.

The system of self-government allows for the unfolding of localism and the activation of the local and provincial energies to a greater extent than ever before. With regard to the quality of life, significant differences among the mezocenters may emerge; because of their size, more or less direct control over the current management is ensured on the one hand, and the role of contingency may appear from time to time on the other hand, some groups may "settle on" the town (in a positive and negative sense alike), dictating the public life there.

The most important part of the organizational-administrative functions of Hungary is based on the mezocenters, these towns play the greatest role in providing the service functions. Some of the mezocentres distinguish themselves by means of some special functions and obtain a role even at the national and regional levels.

A peculiar group of the mezocenters is made up of the centers established in the agglomeration of Budapest and in the border zone of the provincial parts related to it (Ráckeve, Dabas, Monor, Nagykáta, etc.). These settlements drew their urbanization energies precisely from the rapid development of Budapest, and despite the changed situation this can be expected in the future, too. On the whole, they are one-sided centers, providing infrastructural supply for the productive and service functions towards Budapest, while in the direction of the provincial spaces they also fulfil, the traditional functions of the mezocenters. This duality of their development will remain unaltered in the future, and with due harmonization can be used for the benefit of these settlements.

In the territory of Hungary, there are nearly 100 functioning subcenters. Today already three-quarters of these subcenters have town status. They are centers of typically provincial character and concerning social structure many of them have reached only the quality of large villages with a rather thin urban stratum. They play an important role in the provision of Hungary's population and in the lack of a center of a higher hierarchical level, their role is frequently indispensable. These small towns used to house industrial sites, therefore, (in the period of the liquidation of these sites) they are in a very difficult position. In general, the unemployment rate is high, from among the businesses quite a few have proven to be ephemeral. At the same time, it is a favorable phenomenon that in the social sphere healthy self-organizing processes have started.

The number of the microcenters amounts to some 500. In-depth investigations would be required to explore the system of microcenters in the whole country. The findings of the earlier examinations may have become obsolete by now, on the other hand, they were not carried out at the same time and did not cover all the territory of the country.

The microcenters are significant in ensuring the basic services, the establishment and organization of the various operations. The situation of the traffic is of vital importance, on the basis of which the microcenters are able to function. In the territory of the Great Hungarian Plain, more often than not, some centers like this do not have a definitive gravity zone but assert their functions only concerning their own population.

The society of the microcenters is comprehensive, in them the role of the individual initiatives is significant. We have to take into consideration that the settlements of the hierarchical level will not display stability like the others, but settlements within the same group may join them, or certain settlements may be transferred to the category of other settlements.

The more than 2,000 other settlements embody numerous types. These types may be interpreted according to both the character and the territorial situation of the settlements. The first type of this group of settlements includes the ones with small detached farmsteads. They have a relatively small population in the inner area and an extensive suburban area characterized by the presence of detached farms. Their position is special, inasmuch as their infrastructural supply and the living standard of the population are below the average. The same type includes the settlements with poor agricultural endowments in which the agrarian conditions exercise a decisive influence on the living conditions of the population, since there is a lack of other economic possibilities.

A peculiar consequential type also belongs here: it contains settlements the demographic structure of which has been degraded to such an extent on account of the lasting transmigration that the living conditions in them are especially adverse. (The age-composition of the population concentrated in these settlements is not made up of only aged people unfit for demographic reproduction, just on the contrary, in some cases they may excel with virulent demographic indicators). However, this is the consequence of another phenomenon: the growing number of the Gypsies.

The other group of this category is differentiated according to the position of the settlements concerned with the economic-social space. A separate type is represented by the settlements of the agglomerating spaces, the scenes of suburbanization, settlements with poor transport-geographical situation, as well as (a rather great number of) settlements in the border

regions. The solution of the development problems of all the types requires a "custom-made" policy of interference.

With regard to the category of other settlements we can observe the tendency that as a result of earlier development, they are less and less capable of solving troubles on their own. It is not possible to solve them even under the conditions of self-government: these settlements are capable of revitalization only if they join more dynamic settlements of higher hierarchical level. The detached farmsteads had the character of mere supplements already in the long period of their history; their possibilities today greatly depend on how they are situated in relation to the bigger, more dynamic elements of the system of settlements, or which settlement they belong to. Their future depends on the changes in the agrarian market, as well as in the rearrangement of the property relations (or the general labor situation). Namely, if there are unfavorable changes in the latter, more and more people may be compelled to become farmers, or start running detached farmsteads, forelock of other possibilities. If this "movement" becomes general, its success, to put it mildly, may be dubious.

There is no doubt that with respect to the infrastructural provision of the detached farms we also have made enormous progress during the past decades. This progress took place in spite of the fact that the official politics were always opposed to the detached farms. Under a tolerant, or (by means of several instruments) supportive policy, the differentiated transformation and development of the detached farms can be expected. At the same time, the world of the small detached farms will continue to represent extremes, in which the hardly habitable cottages of declassed people as well as hobby-farms furnished with all the accomplishments of civilization will exist side by side (BECSEI, J. 1978).

C) Interdependence in the system of settlements

We are convinced that interdependence in the system of settlements will be strengthened. On the one hand, the strengthening of interdependence can be interpreted as the intensification of interdependence between the system and its elements with regard to the dynamic elements of higher hierarchical level, in particular. This results from the fact that the whole system may be developed, or rather transformed through its elements. On the other hand, transformation of the whole system brings about a different situation for the affected elements impeding their development, or on the contrary, releasing new energies in their dynamism.

Interdependence in (or rather the impact of) the system of settlements will enhance in connection with regional development, the transformation of the infrastructure, various decisions made at the national level, the environmental condition of the region and the modification of our international orientation. Consequently, a picture of the future system of settlements may be outlined only if we take into consideration all the active components together.

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UNEMPLOYMENT AS A NEW PHENOMENON OF THE TRANSITION

DÖVÉNYI, Zoltán

1. Introduction

During the past few years the majority of the economic, social and political changes in Hungary have differed fundamentally from the earlier processes, consequently it is definitely justified to speak of a new stage in the Hungarian history. Some of the new processes and changes have brought about a favorable turnover, yet others have led to the arising of serious tensions, problems that can be solved only in the long run. The latter include unemployment, which is one of the disquieting problems in Hungary. Just like several other processes and elements of the transitional period, it also appeared in a form differing from the expectation of the society. During the decades of socialism according to the official ideology unemployment existed only in capitalism, and as opposed to this the socialist society was characterized by full employment, which was, among others, another proof of its "superiority". Full employment, however, was not realized even in the best of times, and in connection with unemployment there were also stereotypes and biases. One of them was that unemployment of a smaller extent would be a suitable means of improving the rather poor labor discipline.

With the unemployment benefit introduced on January 1, 1989, the existence of unemployment was practically recognized officially, but the majority of the population did not sense the danger yet, because the illusion that he who does his work properly, may not become redundant, still survived. Reality, however, drastically swept away this expectation, and the Hungarian population regards unemployment as the most outstanding problem today. This is also supported by the opinion survey conducted in October 1991, and repeated in February 1992. The interviewees of the first survey mentioned in the order of grave problems livelihood, poverty, housing situation, and at last, unemployment. After more than a year unemployment became the number one problem, preceding poverty, livelihood and housing.¹

Unemployment, which was becoming large-scale in a short while, naturally aroused the professional interest of various disciplines. Research of several directions still has to cope with methodological difficulties and the deficiencies of the statistical data bases, since official data are available only from January 1, 1989. Due to the lack of time, the setting up of a sophisticated data collection system, on the basis of which the finer oscillations of labor market might have been sensed, was not possible. The methodological and other troubles which arise, however, do not question the reality value of the of investigations done in the field of unemployment.

Within the framework of this paper it is not possible to give an exhaustive presentation of the unemployment in Hungary, only to give an idea of the main processes and tendencies. But we may not restrict ourselves to the discussion of the present: beyond the unemployment of these days, we also investigated the historical aspects of the problem and attempted to outline the changes to be expected in the immediate future.

2. A glance at the past

Smaller or larger groups of "idlers" banished from the organization of the economy have always been present in the individual societies, but unemployment according to the current interpretation is a relatively new phenomenon and it is basically related to the rise of capitalism. The industrial revolution in Hungary took place relatively late, in the last decades of the 19th century and accordingly, "modern" unemployment as a problem to be solved also arose about a century ago.

Before World War I large-scale unemployment in the industry had still been unknown, as opposed to this, the unemployment which appeared as a consequence of the agrarian over-population caused all the more troubles. Between the two world wars large-scale industrial unemployment also arose, but the employment difficulties of the agrarian sector seemed to be greater in this period, too.

In the years following World War II there were fewer or more unemployed, and the officially admitted unemployment was terminated only after the Communist Party came into power in 1948, since one of the fundamental objectives of the socialist planned economy was to put an end to unemployment and create full employment. But this was realized only at the level of declaration for some decades, since besides the repeatedly mentioned shortage of labor there always existed some form of unemployment as well. This affected mainly the backward regions, where from the narrow and/or one-sided labor market certain groups were squeezed out, which being aware

of the possibilities, did not even try to find jobs. From this point of view every region where the proportion of women of working age and being dependent at the same time was strikingly high could arouse suspicion. A significant part of these became housewives not for their own gratification, but simply because they could not find jobs. According to the data of the population census of 1990, the number of dependent women who were aged 14–54 and did not study anywhere was above 50 per 100 active and inactive wage-earners in extensive areas of Borsod-Abaúj-Zemplén county, in the eastern regions of Szabolcs-Szatmár-Bereg, as well as in some parts of the Transdanubian with hamlets. This territorial distribution weirdly resembles that of the areas afflicted by unemployment, so spatially this coincidence could hardly be accidental. The index above can be interpreted as an indicator which reflected earlier – even if in a hidden form – the tensions of the local labor market.

There were, of course, people – also not in a negligible number – who did not want to find employment, although it would have been possible for them. Finally, we have to mention those who were "in-between" two workplaces. A certain part of them could have been classified as unemployed in all probabilities.

Therefore, in spite of the declared existence of full employment, 1–3% of unemployment can be reckoned with in the period of socialism (FERGE, Zs. 1988). This, however, must have been significantly lower than the so-called in-doors unemployment. One of the well-known malfunctions of the socialist planned economy was that the enterprises and institutions were interested in accumulating reserves from the resources and the inventory required for their functioning. This greatly deteriorated efficiency and led to waste, which was naturally true for the labor management, too. We have no particular reason to doubt that the estimation is valid also for Hungary, according to which the production level of the European socialist countries might have been achieved by 80% or even less of the labor resources used (FASSMANN, H. 1992).

This is also supported by the domestic calculations carried out in the mid-1960s: in the preparations of the economic reform of 1968 it was concluded that the realization of the market economy would result in an unemployment of half a million (FÓTI, J. – ILLÉS, S. 1992). This figure was not published at that time, and the government did not undertake the conflicts that would accompany unemployment. Unemployment continued to remain a "timed bomb" in the Hungarian economy and society, and it was only a matter of time, when it would explode.

3. Main characteristics of current unemployment

A) National trends

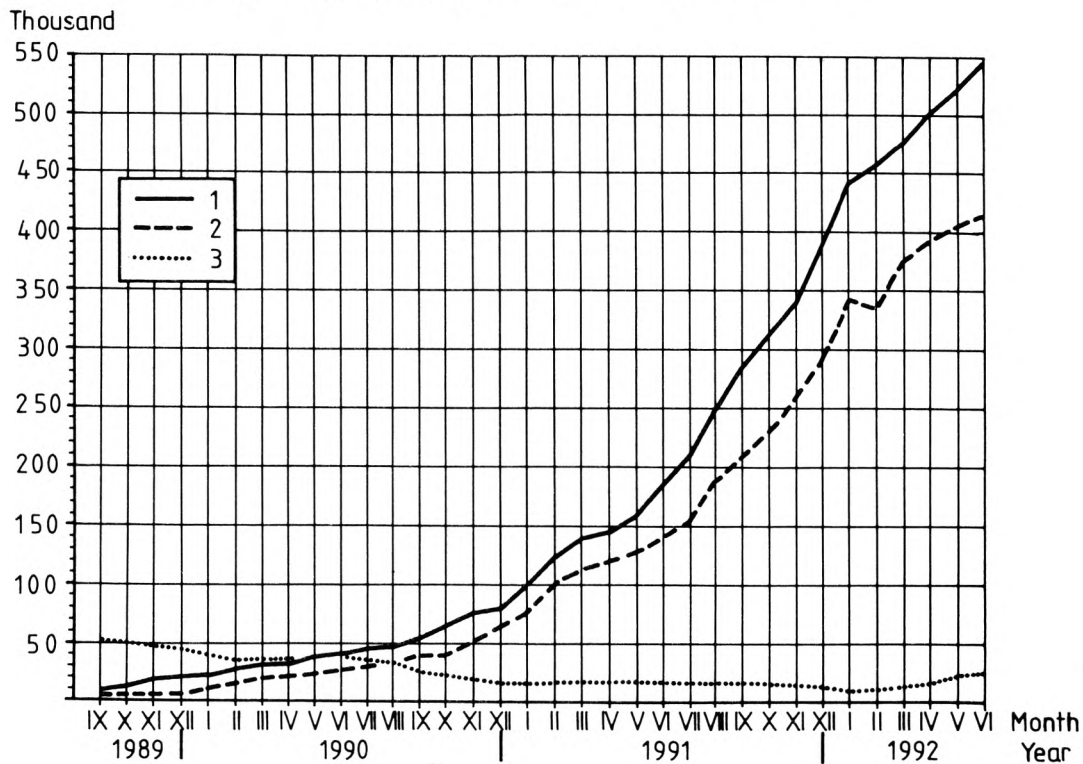
The economic recession becoming more and more obvious from the second half of the 1980s and the increasing weakening of the power of the state socialist government led to the introduction of the unemployment benefit in Hungary on January 1, 1989. This measure was a clear admission of the fact that even the socialist state is unable to realize full employment. By this means, however, unemployment still did not become large-scale, this occurred only after the elections of 1990, when the new government openly undertook to switch over to the market economy. Naturally, this resulted in the manifestation of the inherited weaknesses of the Hungarian economy (e.g. obsolete structure, low competitiveness, technical backwardness), and all this, accompanied by the drastic dismantling and termination of the COMECON, was conducive to large-scale unemployment.

At the beginning the introduction of the unemployment benefit did not arouse the interest of either the government or the population. In the first two years (until the end of 1990) unemployment seemed to be a problem to be easily managed, since the number of those looking for jobs grew relatively slowly. In September 1989 22,000, in December 1990 76,000 unemployed were registered. Subsequently the number of the jobless rapidly grew (by about 80% in the first quarter of 1992), thus at the end of 1991 more than 406,000 unemployed were registered. This trend did not change significantly in the first half of 1992, yet in April 1992 the number of the unemployed was nearly as high as half a million and by the end of July it had reached nearly 600,000 (around 587,000) (*Figure 1*).

The accelerating growth of unemployment is well illustrated by the fact that while the first 100,000 unemployed had been "accumulated" during more than two years, the second 100,000 in nearly six months, while the rest of the groups of 100,000 during some three months.

With the rise in the number of unemployed the unemployment rate became naturally also higher: in the summer of 1990 it was only around 1%, a year later approximately 6%, and at the end of 1991 already nearly 9%. Although the method of calculating² the unemployment rate has been modified since January 1992, this does not change the heart of the matter: the number of those looking for jobs was beyond the psychological threshold of 10% in June 1992, even according to the new calculation, reaching 10.9% in July.

Figure 1
Changes in the unemployment in Hungary (1989–1992)



Key: 1 – number of the registered unemployed; 2 – number of those getting unemployment benefit;
 3 – number of vacancies.

From the international perspective the Hungarian unemployment is approaching to the top of the European countries, which is not a favorable situation. At the end of 1991 the ratio of unemployment was still similar to that of the average of the Common Market (8.8%), and among the European socialist countries Hungary was somewhere in the middle. Since then there has been considerable worsening in our position, and it is rather disquieting with regard to the future.

Optimism in connection with the above mentioned change in unemployment may have been cherished in 1989 because according to the official data there was still labor shortage, since the number of job opportunities significantly exceeded that of the unemployed. In September 1989 there were still 272 vacant jobs per 100 jobless. Thereafter, the situation rapidly deteriorated, in May 1990 the number of unemployed and the number of job opportunities were nearly the same, but from that time on the gap between the two indexes was becoming wider and wider. The worst was January 1992, when according to the official data there were merely two vacancies per 100 unemployed. After this, the number of the vacant jobs was on the increase as compared to the number of the unemployed (*Figure 1*), yet the value of the index could be regarded as symbolic even in the summer of 1992.

In addition to the low number of vacancies, a separate problem was raised by the fact that the structure of the jobless and vacancies greatly varies even on the nation-wide level. At the beginning the unemployment affected mainly the unskilled workers and the administrative office staff, they were the primary victims of the first wave of dismissal. The similarity in the fates of these two – rather different – groups is appalling only at first sight: the matter of issue is that the employers first got rid of the over-sized office apparatus and the unskilled workers. Later, however, the unemployment spread over to the groups with qualifications, mainly to the skilled workers, thus in the spring of 1993 more than one-third of the unemployed had been trained as skilled workers, while the percentage of the unskilled workers was around 25%.

All this does not alter the fact that in the future invariable the unskilled workers will be threatened by unemployment. Comparing the white-collar and manual workers, the latter seem to have a greater "chance" of becoming redundant: about two-thirds of the active wage-earners, but four-fifths of the unemployed are manual workers. From this aspect it should be also mentioned that with the passing of time there has been a significant decrease in the number of unemployment among the people with secondary, university or college education; e.g. while in the spring of 1992 27% of the unemployed were graduated, six months earlier the same figure was 3.8%. On the other

hand, the share of those having been trained in primary and vocational schools grew: it amounted to 70% of the unemployed in March 1992.

Unemployment threatens the members of the different occupational groups to a varying degree. On the basis of the data of spring 1992, it is clear that the proportion of those employed in the industry is the same among the active wage-earners and the unemployed (about 30%), at the same time more people lost their jobs in the construction industry than it is justified by the share of this branch in the unemployment structure (11–12% and about 7%, respectively). This unambiguously points to the decline of the construction industry, but it must include the seasonal fluctuations characterizing this branch, too.

If we look at the distribution of unemployed by sexes, it appears that the men have been afflicted by unemployment to a greater extent than the women at the beginning. In the course of time, however, the proportion of women among the people looking for jobs grew more rapidly, consequently, in the spring of 1992 their share in the unemployment equalled their proportion within the employees. A puzzling question of the period to come is whether this distribution will remain permanent, or the prophecy will come true, according to which the position of the women will improve somewhat on the labor market in the long run because in the field of the booming services mostly the creation of jobs for the women can be expected. Until the summer of 1992 this switchover still could not be observed.

If we look at the age structure of the unemployed, it becomes obvious that the problem affects chiefly the people between 36–55 years, and the share of this age group among the jobless is clearly on the increase: in the spring of 1992 their ratio was already 46% within the group of the unemployed. In the case of other age groups the tendencies are not so unambiguous, furthermore from time to time fairly great fluctuations can be noticed. This is mainly so in the case of the young people starting out on a career, as their number rises at the end of the term. This is well illustrated by the fact that according to the data of 1992 the number of young people starting out on a career and being unable to find employment was only about 25,000 in June, on the other hand it was around 47,000 in July.

An unambiguous tendency is manifested with regard to the duration of unemployment, because the time spent in unemployment is becoming longer and longer. The average unemployed could not find a job for 165 days in August of 1991, a year later, however, for 250 days. This tendency is just the opposite of the tendency experienced in the countries with highly developed market economy, where the average duration of unemployment is slowly decreasing. This marked difference also clearly shows that in Hungary the unemployment is essentially not structural and frictional unemployment

arising as a consequence of the modernization of the economy, but rather absolute unemployment deriving from the decline of the economy (TIMÁR, J. 1992).

Another obvious change is the continuous growth of the sum of the average unemployment benefit. This is mainly the consequence of the fact that unemployment increasingly affects people in the higher income brackets, but the role of the inflation escalating the wages has a significant role, too. The average unemployment benefit was nearly 8400 forints in the spring (March) of 1992, in July it was already 8800 forints, therefore, it is exceeding more and more the officially fixed minimal wage (8,000 forints).

B) Regional differences of unemployment

Behind the indexes showing the country-wide situation of unemployment, there are also hidden, of course, significant regional differences, namely the individual regions are not equally afflicted by the problem. It has various causes, some of them are certainly worth mentioning.

The economic structure of the county having been formed in the course of centuries is rather heterogeneous from the regional aspect, furthermore, the judgement of the endowments and the production capacities concerning the individual regions has changed during the past few decades fundamentally. Formerly the centrally subsidized and preferred branches got into a crisis situation in a short while, and as a result of this, large-scale unemployment arose in the affected fields. At present the steel industry and mining can be regarded as critical branches beyond doubt. Wherever these carry weight in the structure of the economy, serious unemployment comes into being nearly everywhere.

Agriculture as a formerly booming branch is being transformed into a critical branch, too. From among the factors leading to this it should be highlighted by all means that especially the agrarian sector had been disadvantageously affected by the cutdown of the COMECON-market and the sales crises arising afterwards inevitably resulted in the growth of unemployment.

The drastic slimming of the COMECON-market, however, resulted in a serious situation in each branch where the main receivers of the products were the former socialist countries. With the falling apart of the certain market, enterprises deemed to be unflinching have collapsed or gone bankrupt, dragging the labor market of the smaller or bigger regions down with themselves.

The factors might be enumerated further, but the main point is that the unemployment of the individual regions was determined by the nature of the combination of the favorable and unfavorable elements. A look at the unemployment on county level (*Figure 2*) will show immediately that in Hungary a dichotomy, which asserts itself markedly in several aspects, can be definitely noticed in the field of unemployment as well.

Accordingly, in Transdanubia, Budapest and its surroundings unemployment is decisively lower than in the Great Hungarian Plain and Northern Hungary.

The spatial differences of unemployment are good indicators of the productivity of the economy in the individual regions, their adaptability and possibilities of innovation. In the regions where the economic structure is relatively up-to-date, where restructuring has already taken place and the labor market was not one-sided from the first, unemployment seems to be manageable on the long term, too. Such a region is above all Budapest and its surroundings, where unemployment was practically unknown up to the summer of 1991, and the number of the jobless started to increase perceptibly from this point. The ratio of unemployed, however, was merely 4–5% in the capital in the summer of 1992, falling behind the national average by far. At the same time the rate of Pest county was also below the average (approximately 8%).

The territory bordering on Austria can be enlisted among the regions which are in a favorable position as well, where the proportion of the jobless was only around 7% even in the summer (June) of 1992. These counties have a favorable economic structure which developed historically, the so-called critical industrial branches are represented here only to a smaller extent. The favorable geographical situation must have also meant a lot for this region: besides Budapest the western capital could be utilized most efficiently here (e.g. the OPEL assembly-plant in Szentgotthárd), in this region catering to the demands of the businessmen from the West involved a serious need for development, which made possible the rapid flourishing of the services. All this required the creation of new jobs, thus it became possible for the people having lost their jobs to find work again.

This favorable situation, however, is not general even in Transdanubia, where there are also regions struggling with structural problems and where unemployment has been somewhat above the national average. Such a region is e.g. Baranya county, where thousands of workers have lost their jobs as a result of the crisis of uranium- and coal-mining.

Figure 2
 Changes in the unemployment rate (1990–1992)
 (December, 1990)

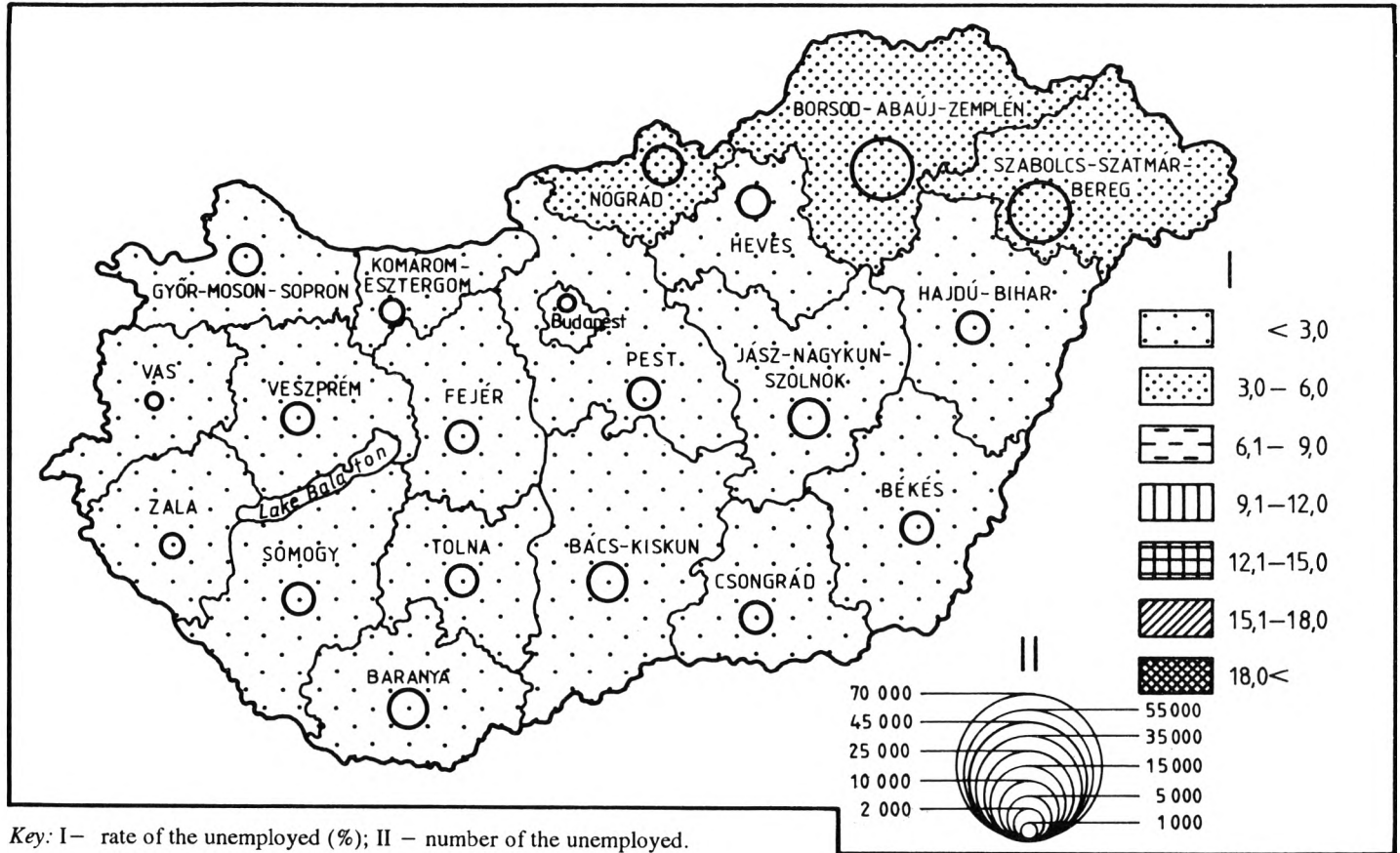


Figure 2
Changes in the unemployment rate (1990–1992)
(March, 1991)

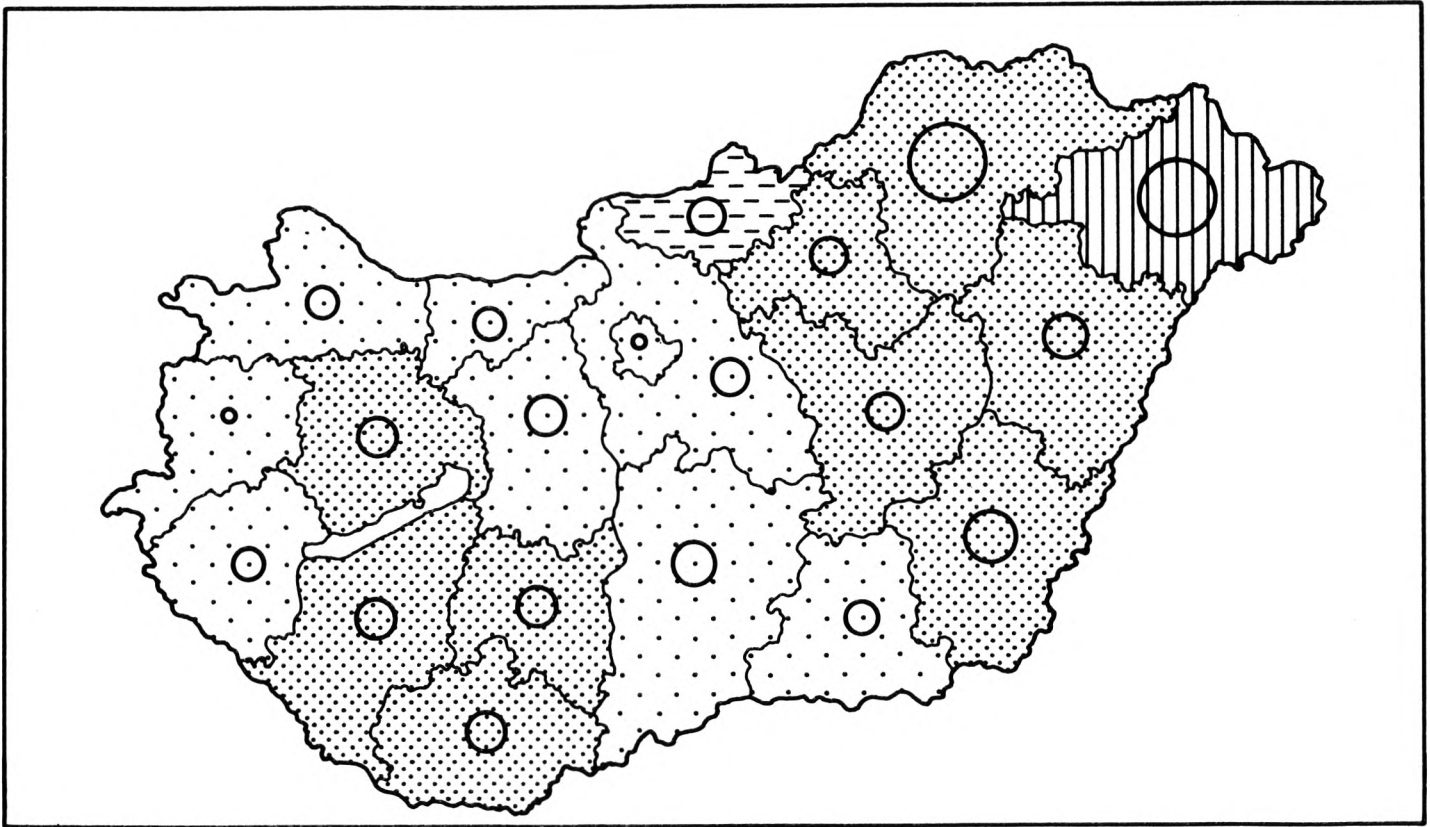


Figure 2
Changes in the unemployment rate (1990–1992)
(August, 1991)

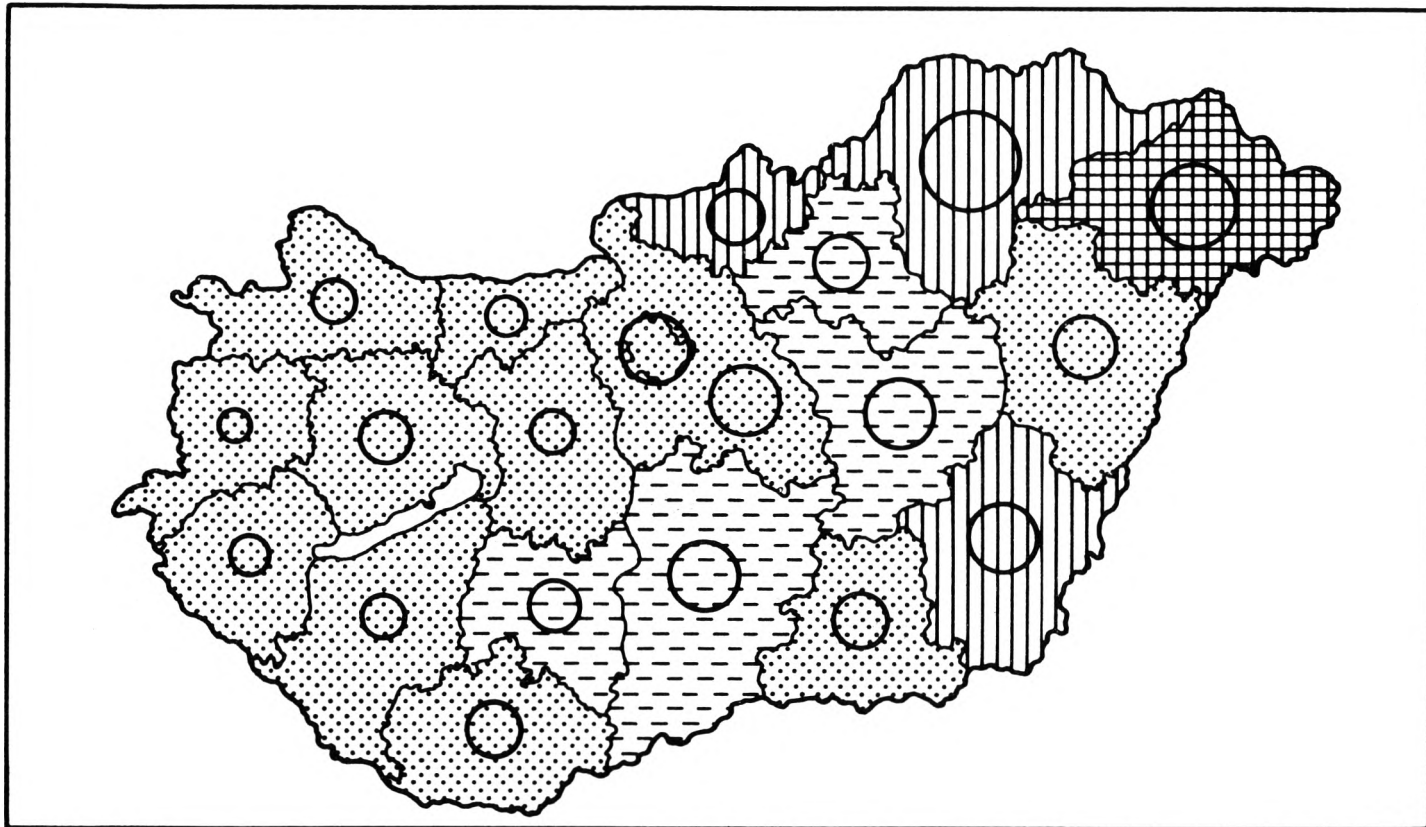


Figure 2
Changes in the unemployment rate (1990–1992)
(December, 1991)

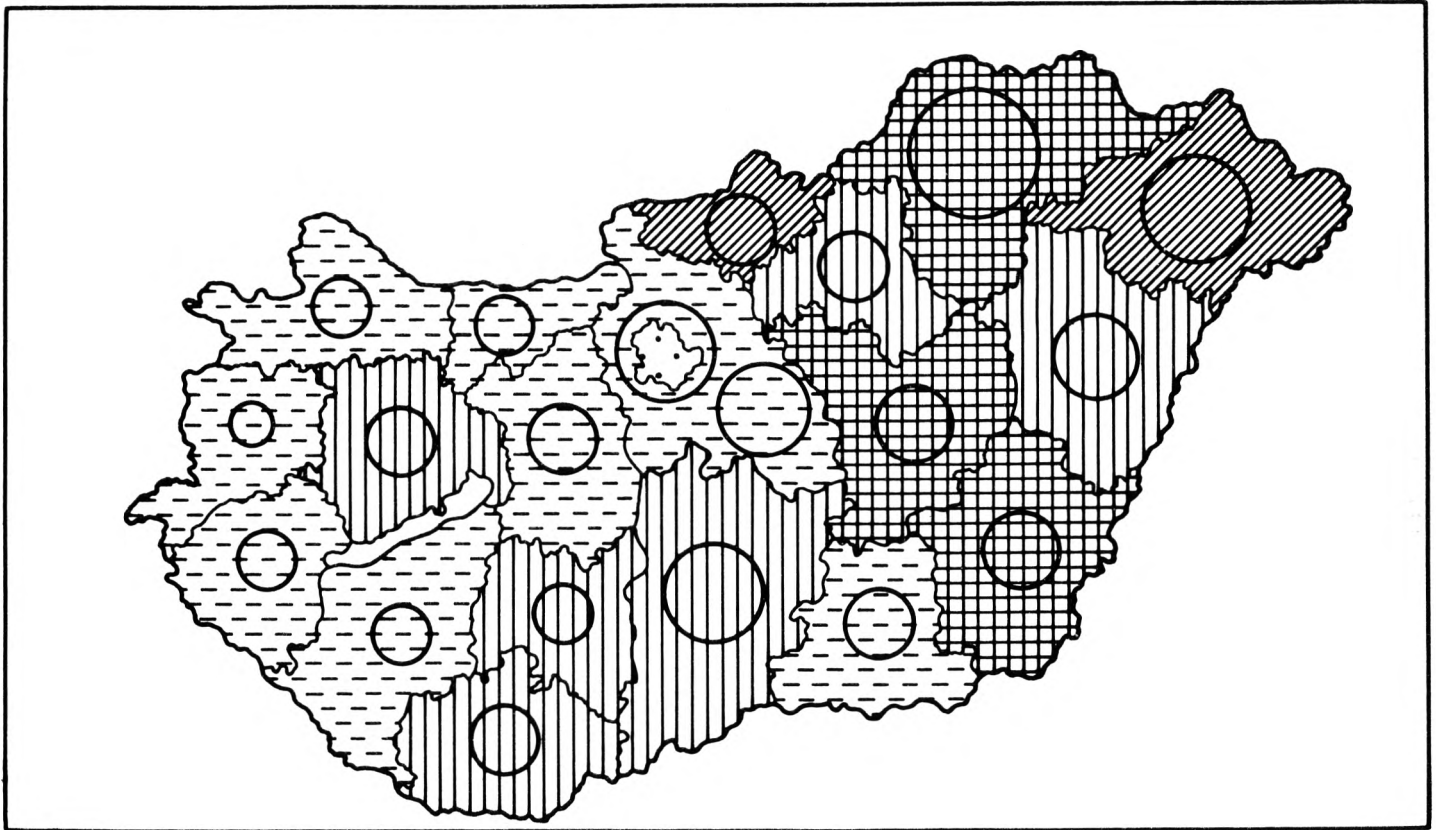


Figure 2
Changes in the unemployment rate (1990–1992)
(March, 1992)

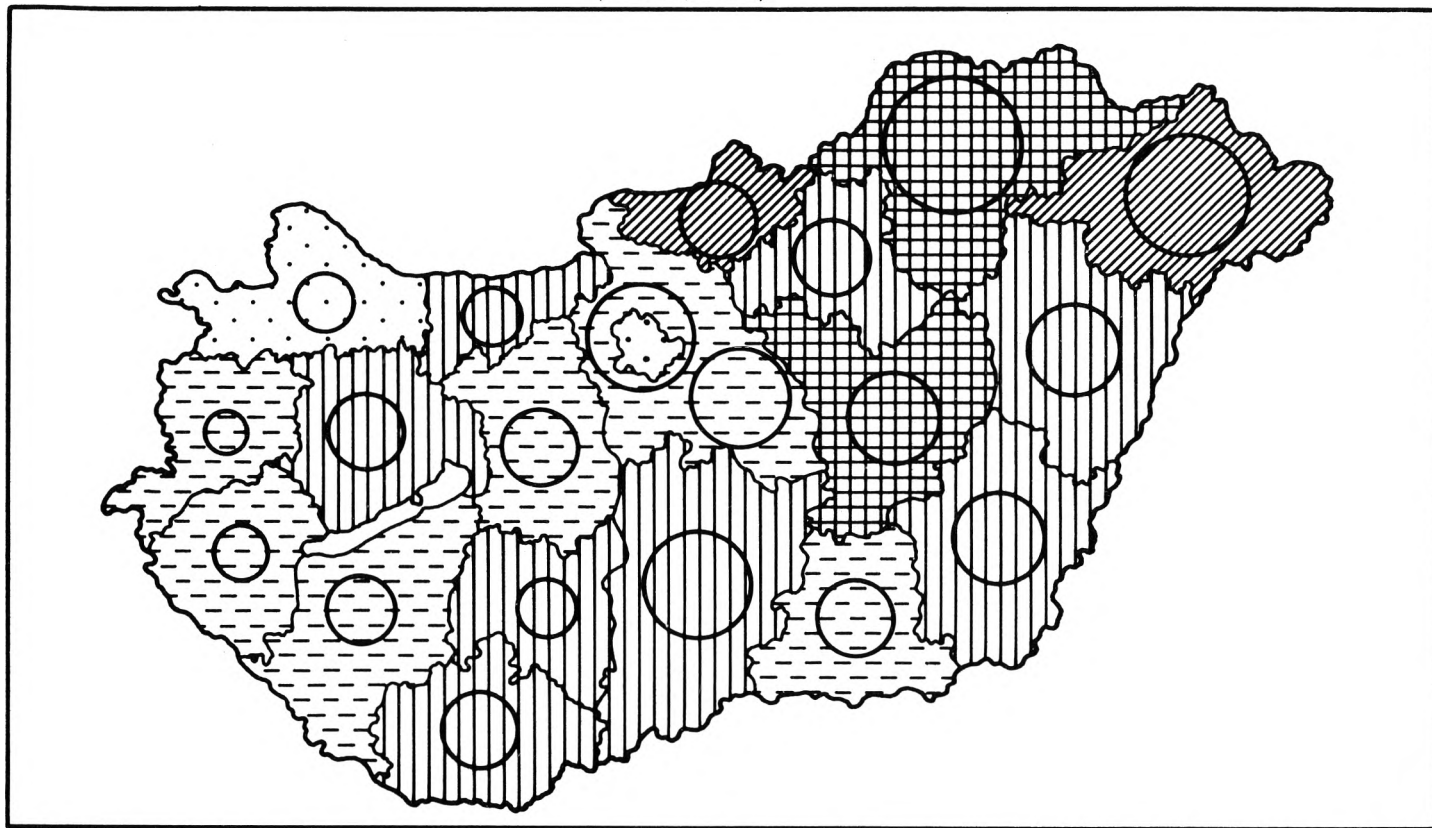
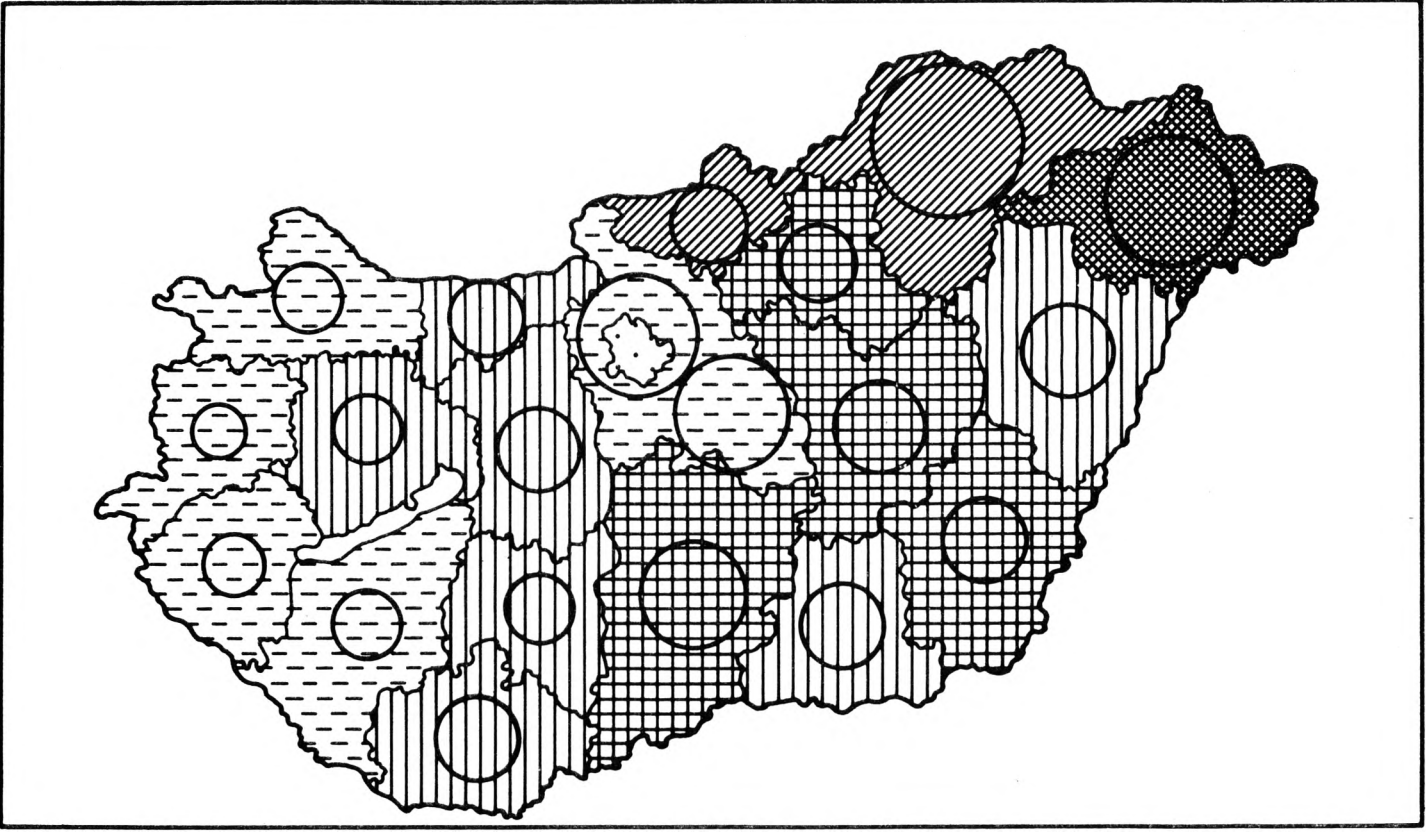


Figure 2
Changes in the unemployment rate (1990–1992)
(June, 1992)



The really serious economic crisis and the concomitant large-scale unemployment have arisen not in Transdanubia, but in the Great Hungarian Plain and Northern Hungary. The unemployment rate was the highest right from the beginning in the same 3 counties, and these formed a contiguous zone along the frontier. The top Szabolcs-Szatmár-Bereg county has been one of the most backward counties for centuries, where the unfavorable features of the economy and the society manifest themselves in great quantities. The large-scale unemployment having arisen here can be accounted for by several reasons.

Among others, in the county the number of jobs has always been lower traditionally than that of the active earners. Consequently, tens of thousands of weekly commuters going to work to Budapest and the nearby industrial regions have appeared. When the economic crisis emerged, these were the first workers to be discharged, the tight labor market of their places of residence was unable to absorb them, so they became unemployed.

In the meantime the economy of Szabolcs-Szatmár-Bereg county itself got into a deep recession, this also led to large-scale lay-offs. Two elements of this crisis should be highlighted by all means. The first element was the appearance of the negative effects of the earlier industrial policy. This means above all that the majority of the industrial plants established in the county within the framework of the slogan "Industrialization of the Provinces" from the 1960s did not prove to be competitive under the new circumstances. These had been originally established with the purpose of tying the population to the location, with a technical standard which was low from the first, producing obsolete products. It is small wonder then, that under the market conditions they quickly went bankrupt and had to fire their workers.

The other serious trouble is the agriculture, for the products of which the Soviet Union used to be an important market for several decades. With the disintegration of the COMECON and the Soviet Union, this certain market ceased to exist, as a consequence of which the agriculture of the county is struggling with serious sales difficulties. The crisis of the large-scale agricultural plants is one of the important causes of the mass unemployment.

The above-mentioned two factors, however, are not only the peculiarities of this county, but they are a problem generally affecting the whole Great Hungarian Plain. The general economic backwardness of the Great Hungarian Plain is also reflected by the extent of unemployment which exceeds the average. The majority of the industrial plants established there are unable to turn out products which meet the needs of the market, and with the dismantling of the COMECON they have lost their major market. The weight of the latter problem is supported by the fact that a few years ago half of the

agricultural products of the Great Hungarian Plain and about a quarter of the agrarian products of Hungary were exported to the COMECON-countries.

The large-scale unemployment in Northern Hungary can be accounted for by other factors, particularly in Nógrád and Borsod-Abaúj-Zemplén counties. These territories are traditional heavy industrial and mining regions, and these branches played a distinctive or at least important role in the local employment structure and the economy. During the decades of the "socialist planned economy" the production of the relevant iron and steel metallurgy and coal-mining in Northern Hungary was maintained with the help of significant state subsidization, practically they were not exposed to the market competition. Consequently, the equipment was obsolete and the products out-of-date. All this became obvious only when the new economic policy refused to finance the loss-making production from the state budget. Subsequently, a series of factories and mines collapsed or were on the verge of bankruptcy, firing masses of workers.

The differences of unemployment, however, do not come to a stop at the level of the parts or counties of the country, often even within the smaller territorial units there are remarkable anomalies. This is well illustrated by the data of the nearly 170 labor market regions, too. These data show that significant regional differences are hidden behind the national, as well as the county averages. Thus, within the counties there are double or even triple differences between the individual labor market zones, e.g. in the spring of 1992 the ratio of unemployment was around 10% in the most favorable zone of Miskolc, while in three other regions it was 25–30% in Borsod-Abaúj-Zemplén county.

The labor market zones characterized by an unemployment rate which is the double of the national average, create a continuous region in Northern and Northeastern Hungary, but similar larger or smaller groups can be found all over the country. The zones with the most serious unemployment coincide with the regions which are also officially declared as backward by the government. This is the case in the region of e.g. Encs and Fehérgyarmat, where unemployment has been beyond the average right from the beginning. In March 1992, in the zone of Encs already more than 5,300 unemployed were registered, which meant an unemployment rate of 27–28%. In the same period, in the neighborhood of Fehérgyarmat the unemployment rate which was lower only by a few percents, actually meant around 3,500 workers looking for jobs.

Both small regions can be characterized by the appearance of such settlement groups within the zone where the ratio of unemployed significantly exceeded even that of the zone. In the Borsod region this is a zone lying between Encs and Gönc, while in the small region of Fehérgyarmat the zone

is unambiguously linked to the frontier (*Figure 3*). These regions probably got the finishing stroke from the large-scale unemployment and the complete disintegration of the local society of settlements situated here is a real danger. As a result of the unbearability of the living conditions, the valuable part of the population which has remained loyal up to now is likely to migrate and mostly only the down-and-out peripheral groups will remain in these areas – momentarily at least. In lack of an adequate regional and social policy the depopulation and emptying of certain smaller regions can be expected in the future.

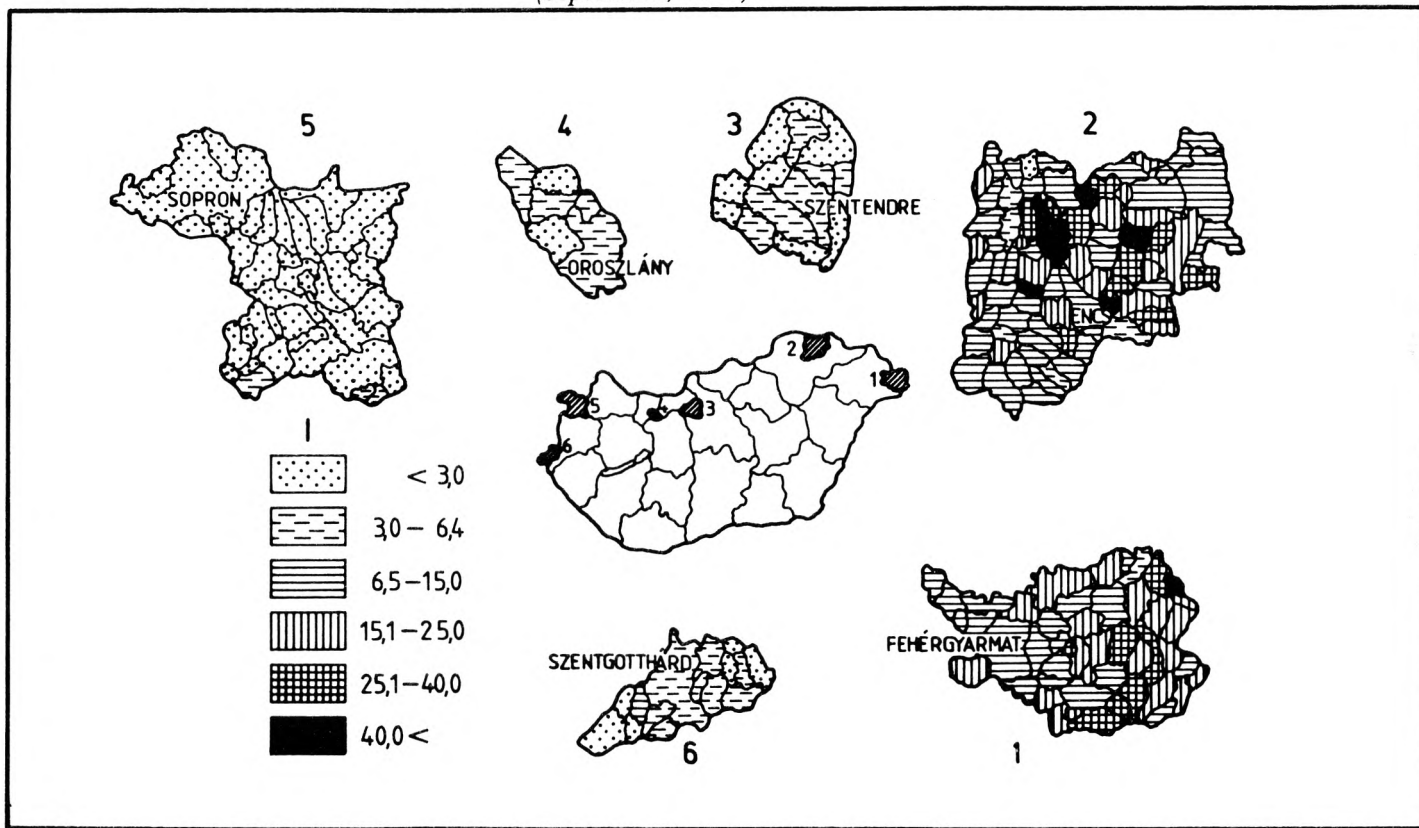
In a short time, however, unemployment may arise as a problem not only in the backward regions, but in the rural areas in general. Although in the public mind unemployment is mainly an urban phenomenon, in Hungary it is a greater menace to the rural spaces, which will have its destructive effects in the provincial areas above all.

From the aspect of unemployment the other basic type is made up of small districts which are in an intermediate situation. In them the unemployment rate is around the national figure, its lower limit in the spring of 1992 can be defined experimentally at 5–6%. This category can be met with mainly in the Central Region and the eastern and western parts of Transdanubia in a large number, but on the whole mainly in the districts of the larger towns of the Great Hungarian Plain and in other parts of Transdanubia. Naturally this group is not entirely homogeneous either, the situation of the small regions belonging here greatly varies. A peculiar feature of this category is that so far a one-way movement has taken place in it: small regions were transferred into the group of the depression zones, there has not been movement towards the regions which are in a favorable situation.

An essential characteristic of this type is uncertainty, chiefly in the districts around the small towns. In these, as it were, the bankruptcy of even a medium-scale plant leads to the collapse of the labor market: e.g., the problems of Videoton meant a more serious trouble in Tab (the firm had a plant there, too) than in Székesfehérvár. The planned close-down of the coal-mine in Dudar results not only in the loss of "only" 1,100 jobs, but its impact will be perceptible in three districts at least (Zirc, Mór, Kibér). In these districts the number of unemployed has been relatively low up to now, but the close-down of a single mine and its impact may lead to a crisis.

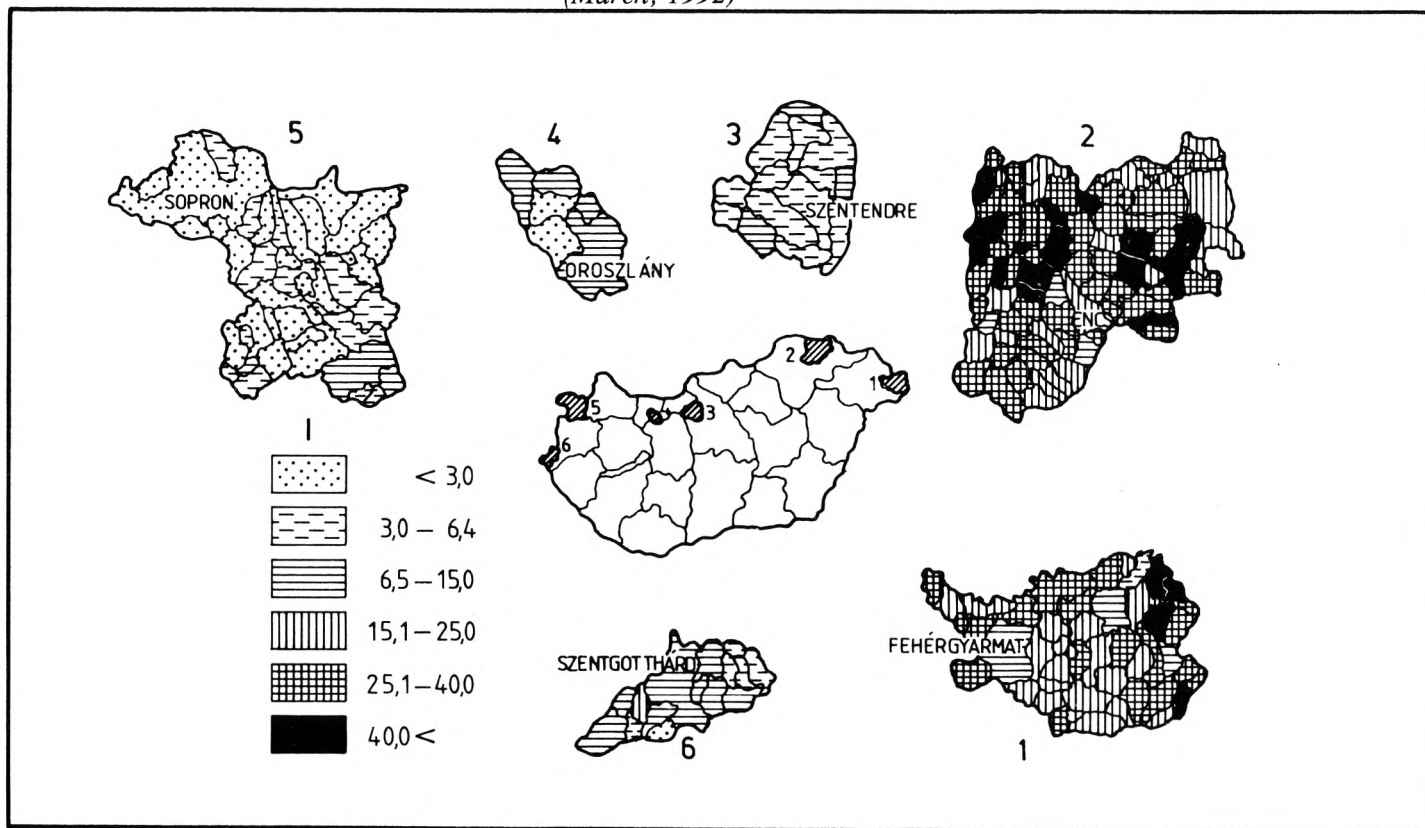
This danger cannot be excluded in the district of Oroszlány either, where in August 1991 the unemployment rate was only 4.5%, which arose to about 7% until March, 1992. The biggest employer, the coal-mining company has hardly performed any lay-offs, this accounts for the relatively low value. On the other hand, if the firm's position turns out to be insecure, then it will immediately become visible in the change of the number of unemployed.

Figure 3
 Changes of unemployment in some typical regions
 (September, 1991)



Key: 1 – unemployment rate (%).

Figure 3
 Changes of unemployment in some typical regions
 (March, 1992)



Key: 1 – unemployment rate (%).

The districts where the respective labor market is not so much sector-oriented and it is possible to utilize the closeness of the capital are in a better position. In these areas the fast collapse of the labor market is less likely to occur, it is rather stagnation, or slow deterioration which can be prognosticated. The same can be expected in the district of Szentendre, where in August 1991 the unemployment rate hardly exceeded 3% and it was only around 4% even in March, 1992.

The districts with tight labor market are characterized by a quick transfer from one category to the other, even if the number of unemployed is relatively low. A good example of this is the district of Szentgotthárd, where in March, 1991, the 104 unemployed implied only a rate of 1.6%, in August, however, the nearly 287 jobless already amounted to 4% of the active wage-earners, while in March of 1992 the nearly 600 jobless already amounted to an unemployment rate of more than 8%. It is still an open question whether the impact of Opel's assembly-plant will be perceptible on the labor market of the district, whether it will be able to reduce unemployment.

Before soon the type less threatened by unemployment will qualify as a historical category, the districts belonging here are merely a dozen. The number of the people looking for jobs in them does not reach even half of the national average, this criterion is practically met only by the capital and some Transdanubian districts.

One of these districts is that of Sopron, where the unemployment rate is lower even than the average of Győr-Sopron-Moson county: in August 1991 it was 1.0–1.5% and even in March 1992 it was only around 2.5–3%. According to the Western European interpretation it still full employment.

4. A glance at the future

An overview of the past few years of unemployment in Hungary does not give a very promising picture. In less than 3 and a half years the number of unemployed reached half a million and large-scale unemployment is becoming the greatest problem in an ever larger part of the country. In addition, every sign seems to indicate that the events have not come to an end yet, and the number of the unemployed will grow also in the period to come.

As it has been mentioned above, in July 1992 the number of unemployed was around 587,000, and according to the preliminary data the enterprises and institutions are planning to eliminate another 70,000 jobs until the end of 1992. As a consequence of this, the number of jobless who are looking for jobs would rise to more than 650,000. On the basis of current experience, however, we can conclude with certainty that the number of unemployed will

be higher than that until the end of 1992, presumably reaching the value somewhere around 700–800,000. That would mean an unemployment rate of 13–15%, that is one out of every seven economically active wage-earners would be put out of job. With regard to the regional differences there will be districts where every third or fourth wage-earner will become unemployed.

A look at the condition of the Hungarian economy shows that it is not unjustified to predict a growth in the number of the unemployed for 1993 as well, furthermore, the value of the index may as well approach one million. This seems to be supported by two factors which have not influenced the changes of the unemployment up to now.

The first factor is demographically motivated: the people born in the period of the minor demographic peak in the mid-seventies will, or rather would like enter the labor market these days. In respect of the present condition of the economy the majority of these people will start out on a career as unemployed.

The other factor is already related to the economic sphere. In view of the prospective changes of unemployment we must not forget that the actual consequences of the transformation of agriculture will assert themselves on the labor market only in the future. We have to reckon with the fact that in 1993 the number of those pushed out from the agrarian sector will increase, significantly raising unemployment thereby.

The number of unemployed was already so high in 1992, that it will not be an easy task to relieve the accumulated social tensions. According to some estimates the Hungarian society is able to endure an unemployment rate of maximum 15–18% without serious cataclysms. At the same time it is often impossible to foresee the reactions of a society, therefore this estimation may not be regarded as "bomb-proof" either. Consequently, we should deal much more thoroughly with unemployment than in the past.

That is to say, the past few years were not sufficient even for the elaboration of an unemployment management strategy. The government has not considered unemployment to be a problem of vital importance for a long time, thus it was not included among the priorities such as inflation and solvency. The activity of the government in connection with unemployment was characterized by passivity, not even trying to make efforts to develop such a comprehensive employment policy in which the issue of unemployment would have got enough attention. This situation must be changed before long.

On the other hand, it has been – and according to all indication it will be – a permanent topic and issue of debate, who and in what proportion are to finance the rapidly rising costs related to the management of unemployment. The permanent struggle among the government, the employers and the employees in connection with it does not seem to be a fortunate situation.

International experiences show that the population is willing to put up with a lastingly high level of unemployment – and this is the case we have to reckon with in Hungary – only if an adequate network of institutions and funds are available for the management of unemployment. In the OECD-countries 2-3.5% of the GDP is spent from the budget on expenditures related to the labor market. In Hungary this proportion would amount to 40–50 billion Hungarian forints. As opposed to this, only about half of this amount was included in the budget of 1992. In accordance with the expectation, the earmarked amount had run out by the spring of 1992, but since the government guaranteed to pay the unemployment benefits, several billion forints had to be financed from other sources.

Presumably this unpleasant experience played a role in the change that according to its preliminary conceptions now the government intends to spend 60 billion forints on the management of unemployment. This, however, is only half of the required sum, the other half will have to be funded from elsewhere. The measures taken in this respect will be extremely unpopular (the raise of benefit payments, reduction of the maximum amount of the benefits and of the duration of support), but something must be done, or otherwise the system may collapse.

Another not insignificant trouble is that the number of those living without an unemployment benefit is on the increase. They get half of the monthly minimum wage as social allowance (which was 4,000 forints in the summer of 1992). This amount is so modest that something will have to be done about it in the future by all means.

The enormous sums to be spent on the passive instruments of the management of unemployment will lead hopefully to the recognition that the employment policy also has to play an outstanding role in the economic policy. Only in this way may we expect the halt, or at least reduction of unemployment and its growth rate.

It would be extremely important to tighten the criteria of granting unemployment benefits as well. Although there are no precise data available, but on the basis of international experience the proportion of those who might be excluded from the circle of the people getting the unemployment benefit on various grounds can be estimated at 10–30%. There are more and more cases when the individual firms are struggling with labor shortage even in the regions which have large-scale unemployment, because quite a few people find it worthwhile to get the unemployment benefit instead of working. There is no doubt that this situation may not be maintained.

At present there is not any reliable estimate on the expectable period of unemployment growth, on when it will reach its peak and at what level it will

be stabilized. It is certain, however, that some unemployment will always exist in the foreseeable future.

In my opinion, Hungary has to be prepared that even after the normalization of the economy the unemployment rate will be somewhere around 5-10%. This will affect a sufficiently large number of people for having to provide the necessary instruments and institutions always and everywhere for the management of the problem. The challenge is great, but it is impossible to wriggle out of facing it.

Notes

1 Népszabadság April 7, 1992. p. 1

2 From the beginning of 1992 the economically active wage-earners have been taken as a basis in the calculation of the unemployment rate instead of the active wage-earners. Since the number of the former is higher, the unemployment rate is by 1.0–1.1% lower than the rate calculated earlier.

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SUSTAINABLE REGIONAL DEVELOPMENT IN HUNGARY

ENYEDI, György

1. Introduction

''Sustainable development'' has become a widely used term since the Bruntland Commission published its report *Our Common Future*.¹ The concept of sustainable development came to Hungary relatively recently, and it is not yet widely known by the great public. The interpretation of ''sustainability'' is as ambiguous as in Western Europe, depending on which interest group intends to explain it for a certain audience. Due to the serious environmental deterioration hitting Hungary, we have to pay attention to all the approaches which try to find a compromise between environmental protection and further development. Hungarian society, after long years of economic decline, could not accept any sort of environmental policy based on further restrictions of growth and development.

This paper has four parts. In the first part, we explain our standpoint on sustainable development, the second part discusses the applicability of the concept, the third part is devoted to analyzing the possibilities of sustainable development in post-socialist Hungary and the fourth part describes options for sustainable regional development projects.

2. Meaning of sustainable development

The basic question is: *what* needs to be sustained? The environment? the economic development? or more broadly: social and cultural systems? These three questions express three different approaches used in the interpretation of sustainable development.

The Bruntland Commission placed the emphasis in sustainable development on *human needs* rather than the protection of the environment. A frequently quoted part of the Commission's report speaks of ''development which meets the needs of the present, without compromising the ability of

future generations to meet their own needs. The key problem is how we define "needs".²

The centrality of the needs in the report suggests the sustainability of economic growth. *Pearce* writes that sustainable economic development "involves maximizing the net benefits of economic development, subject to maintaining the services and quality of natural resources over time"³. There are two preconditions for further economic growth:

- a) a substantial slow-down of population growth
- b) limitation of resource use by using market mechanism (e.g. eco-taxes for internalizing the real environmental costs of economic activity).

This economically biased interpretation of sustainable development accepts the necessity of changing the paradigm of energy wasting and resource abusing growth, but it hopes to maintain growth by more efficient resource allocation, and by more efficient environmental protection.

This approach doesn't give answers for such questions as, for example, are human needs "given" or will they change in the future, how these needs will be distributed between North and South, and will modern technologies be transferred from North to South parallel to the creation of new needs: the slowing down of environmental deterioration seems to be a conflicting process. Until now, even the European Community, despite the strict constraints imposed by authorities on environmental use, failed to, be successful in this respect. As a recent report states, "Over the past two decades four Community action programmes on the environment have given rise to about 200 pieces of legislation covering pollution of the atmosphere, water and soil, waste management, safeguards in relation to chemicals and biotechnology, product standards, environmental impact assessments and protection of nature". And the result: "... a slow but relentless deterioration of the general state of the environment of the Community notwithstanding the measures taken over the past two decades."⁴

Another possible approach to the interpretation of sustainable development gives a primary focus on ecological considerations. The main question, in this reading is how economic activities can maintain ecological processes and not exceed the capacity of the natural resources. The followers of this approach do not believe in the possibility of continuous growth. *Rees* argues that "the emerging ecological crisis reveals fatal flaws in the prevailing world-view. Our mechanical perception of the biosphere is dangerously superficial and our continued belief in the possibility of sustainable development based on the growth-oriented assumptions of Neo-Classical economics is illusory"⁵ Presumably, he is right; but, at the moment, the global economy follows Neo-Classical rules.

The third approach puts the idea of sustainable development into a broader socio-cultural context. We sympathize with this approach. It is too simplistic to reduce the environmental arena to clashes occurring between the profit-oriented economy and political (government) agencies protecting environment. First, political actions depend on the strength of the environmentalist pressure groups. In most of the cases, economic pressure groups are stronger than ecological groups. Second: one cannot introduce sustainable development from the top down, by legislation and regulation alone. As Redcliff points out: "... if people are not brought into focus through sustainable development, becoming both the architects and engineers of the concept, then it will never be achieved anyway, since they are unlikely to take responsibility for something they do not 'own' themselves."⁶

One can put economic incentives in sustainable development: every saving or waste re-cycling contributes to the economic competitiveness. Nevertheless, sustainability of a social system incurs additional costs. Poor people (nations) often have no choice but to have immediate economic benefits at the expense of the long-run sustainability. The central objective of sustainable development, therefore, would be to ensure that the poor have access to sustainable and secure livelihoods. It would be hypocritical to blame poor people who "misuse" nature for their own living. We quote again Redcliff: "If the concept of sustainable development is to prove useful it must help us to make difficult choices, rather than simply occupy the high moral ground."⁷

Finally, man's relation to the environment is a cultural product, too. "Clean environment" is a post-material value which exists only in affluent societies among educated and affluent peoples. Scientific evaluation of the nature is typical in the Judaeo-Christian cultural zones, but not in the Asian and African cultures. When environmentally destructive technologies were transferred from industrialized countries to third world countries, they were (later) followed by environmental protection and environmental management methods (and experts). These methods were developed under the ecological and cultural conditions of industrialized countries. Their introduction often promoted resistance in local societies because of outside intervention into their traditional relationship with the environment. Generally, there is a failure to take adequate account of both international and cross-cultural factors in sustainable development.

We can conclude that there is a lot of confusing discussions about sustainability. It is not clear whether sustainable development may be achieved at all, if so, by which methods. Nevertheless, we feel it is important to introduce the concept into the development thinking in Hungary.

3. Applicability of the concept of sustainable development

In this part of the paper, we define the main actors and their most important tools for introducing sustainable development. We discuss this aspect generally and under the conditions in Hungary.

According to J. Rees, there are four forms of intervention or mechanisms of regulation which governments can employ in the favor of sustainable development⁸:

- *state ownership and planning* to directly change consumption and production systems to conform to sustainable development rules;
- *state regulation*, which employs tools of influence and coercion to ensure that private behavior is compatible with sustainability;
- *market regulation*, whereby current markets are reprogrammed to reflect real social values and environmental scarcity constraints and then are harnessed to yield true and sustainable welfare growth;
- *social regulation*, the use of information, persuasion, education and example to change value systems and political, social and economic behavior.”

It is well known that state socialist systems failed to introduce efficient environmental protection measures. As we explained in an earlier paper, there was a number of reasons for this failure; the most important was perhaps the fact, that the state, which had the duty for protect the environment, was of the same time the owner of the polluting, resource wasting industry.⁹ Since investment funds were allocated from central budget, enterprises had but very limited possibility to change polluting technology without government subsidy. The state economy used prescribed, arbitrary prices, there was no market competition, consequently the "polluters pay" principle (and the fines or taxes) didn't operate in the state socialist system.

State regulations were not very successful in Western societies either. There are a number of criticisms as for instance, governments are unable to intervene into the economy to produce cost-effective environmental improvements; governments react to the symptoms and not to the basic mechanism of environmental pollution. Some political analyses state that the political and bureaucratic decision process necessarily leads to regulatory failure. Theoretically, the state represents public interest; in reality, state regulations reflect inter-ministerial power relations within the government and the influence of different power groups.

In Western societies, even environmental movements expected earlier that the state will control and discipline the capitalist market-system (which was the cause of environmental degradation). With the emergence of New

Conservatism, the market replaced the state as the panacea for environmental regulation. In Hungary, decades of a state socialist system created an ambiguous situation. In one hand, everybody became convinced of the inefficiency of state regulation. On the other hand, most people accepted the comfort offered by state paternalism, which gave the possibility to leave all the responsibilities for environmental protection to the state. Consequently, introduction of a market economy and market-oriented environmental protection measures produced mixed feelings of enthusiasm and fear.

Market regulation certainly has advantages over bureaucratic regulation:

a) the concept of sustainable development accepts economic growth and market processes provided they will give environmental cost-signals to producers and consumers,

b) state regulations are necessarily uniform whereas market incentives allow individuality and flexible response,

c) the market is neutral, impressionable, free from political manipulations once appropriate prices or values had been set for all resource goods and services, all producers and consumers were faced by the same economic rules; the market mechanism operates automatically and doesn't need bureaucratic machinery for implementation),

d) the market seems to be only instrument to internalize environmental costs. The market led to the overuse of resources because they were not properly priced, or even society had a free access to some of the resources. The solution looks like a simple measure: one should price all resources (including: the environment's capacity to assimilate waste products and provide a habitat for all species of life).

The rediscovery of the market virtues (which has happened several times during the last two decades) may be explained by two facts. First, global environmental problems – such as ozone depletion, global warming and the destruction of tropical rain forests – provoked a lot of concern and environmental problems became very important in international politics. It was an outmost need for a substantially improved regulatory system. Second, all these problems were attracting public attention when New Conservatism was gaining political influence. At this time, only market regulation was acceptable. Actually, both state and market regulations failed to halt environmental deterioration during the last decades. Because of the general political mood, the answer was to diminish the role of state regulation and to improve and expand market regulation.

Despite its clear advantages, the market mechanism leaves important questions unanswered. The market creates social inequalities and can deny a large group of (poor) people the access to environmental goods and services. This type of inequality wouldn't be accepted by the general public social

movements, by the civil society. Governments have to keep their role in setting maximum pollution levels, to enforce environmental laws and to allocate equity.

4. Possibilities for sustainable development in Hungary

The concept of sustainable development may be implemented in Hungary, too. Changes in the socio-economic system facilitate the introduction of market regulation. Ownership and economic restructuring reduce harmful effects of agriculture and industry on the environment.

The political changes have had the following positive effects:

a) the market economy made the economic actors sensible for costs. Consequently their behavior may be influenced by fines, taxes and incentives.

b) privatization put a large part of natural resources, first of all agricultural land, into private property. We can expect a more careful land economy than under collective farming. Free access to natural resources ended even in case of state or communal property. Rising water or energy prices (which still contain state subsidies, but much less than earlier) stimulate to reduce extravagant consumption.

c) there have been a fundamental structural changes in the economy, which has diminished the size of the most polluting heavy industry, and extended the service sector.

d) there has been a radical shift in export orientation, as 80 per cent of the Hungarian export is aimed now to Western Europe and North America (two thirds to the European Community member states). Hungarian products have to meet the environmental standards of the EC, which represent more severe requirements than earlier COMECON standards.

e) political democracy gave freedom to organize environmental associations, movements, parties or other forms of political pressure groups. Local governments have also developed environmental regulations.

Political changes are not without new problems and weaknesses:

a) two thirds of the GDP is still produced by state owned enterprises, the majority of them fighting for their survival. They cannot pay much attention to environmental protection. In the private sector, there is a great number of short lived enterprises, even stronger firms usually have short run policies. State environmental control agencies do not have adequate monitoring systems and organization for controlling small, rapidly changing producers. Local governments – in case of high unemployment – are also reluctant to employ strict measures against important employers.

b) public control successfully halted waste imported from the West (government authorities were alarmed in a few sporadic cases). At the same time, we not have appropriate information about polluting technologies, which are being transferred by Western investors.

c) general economic crisis resulted a sharp decline in the level of GDP, high unemployment rate, and a growing poverty. Such phenomena were unknown for the majority of the population. People were not prepared psychologically to face economic difficulties. The state socialist system offered security and – in the case of Hungary – an acceptable standard of living for most people. Economic uncertainties create an unfavorable atmosphere for discussing environmental issues.

d) earlier state paternalism and dictatorship didn't allow the development of grassroots movements, independent actions of citizens' groups. Most citizens still expect that all the environmental problems should be solved by the state. Citizens' activities are seldom and temporary, they are generally focused on a single issue (e.g. protest against the opening of a new road). Green movements are fragmented and politically insignificant. (They were stronger during the last years of state socialism, when they served as umbrella organizations for anti-communist opposition politicians). All the political parties have environmental programs but they don't pay too much attention to ecological problems. Certain environmental problems – especially the spectacular ones, as the construction of the Gabčíkovo Dam on the Danube – can mobilize public opinion, but generally speaking, there are no important pressure groups behind environmental problems, hence the weak position of the Ministry of Environmental Protection within the government.

We now discuss briefly the possibilities of sustainable development in the different economic sectors.

We are in the beginning of the *industrial restructuring*. "Rustbelt" industries – coal mining, steel making, traditional heavy industry – are losing ground rapidly, but the new structures are not yet developed. In Hungarian industrial export, there is still a high proportion of traditional goods such as raw materials, food products, garment products. There are some promising signs that perhaps the industrial decline will stop soon (total output started to grow by the end of 1992) but most probably, the resource and energy – wasting industry is definitively over. The traditional heavy industrial sector had a forced development in the 1950's, related to the autarky of the cold war period. The small country, poor in mineral and energy resources, has no any reason to modernize and expand again heavy industry. We can expect that industrial pollution will be more moderate and geographically less concentrated than earlier. It's a big question of who, when

and from what financial sources will the old industrial districts be cleaned, and what will happen with the accumulated hazardous waste.

Agriculture has been radically transformed as the privatization has become almost total. At the moment, most of collective farm members insist on keeping together their large scale operations (based on the private land ownership of members) but I do not think that co-operative farms will survive for long time. It's still uncertain whether the proportion of large scale (corporate) farming will be significant or not; whether family farming will be characterized by part-time farming or by professional farmers: Anyway, private property will have a positive impact on land protection as land is again becoming an important capital asset. Market changes influence the crop production system. Eastern markets needed basic food supply (meat and cereals), therefore two third of the arable land was occupied by grains (wheat, barley, maize). The growing significance of the – already important – Western market needs a more diversified product – structure, with more emphasis on intensive crops. Environmental deterioration caused by monoculture, using heavy machinery, by huge industrial feedlots will be diminished.

Transport has been an important source of pollution. Transport changes have contradictory effects. On the hand, the transport needed diminished remarkably. State industry, located often arbitrarily, was characterized by high material consumption and an excessively high transport need. Economic restructuring eased the environmental impact of transport. On the other hand, individual motorization is rapidly expanding, and there is more pressure for motorway construction, than for modernizing the dense railroad network.

In sum: the socio-political transition had a positive effect on environmental problems. This effect has resulted rather from the decline of certain polluting sectors (heavy industry, large scale farming) than from a comprehensive environmental policy. Sweeping political changes created favorable conditions for introducing new concepts and policies. This situation gives opportunities for sustainable development, too.

5. Sustainable regional development

Recent economic changes introduced alterations in regional development processes and in the development of a settlement network. Political changes led to the introduction of new principles and mechanisms into regional policies.

Regional development processes are characterized by
a) concentration tendencies

b) by establishing a new order among regions.

New, dynamic elements of the economy are again concentrating in Budapest and in Western Hungary. For instance, sixty per cent of all foreign investments went to Budapest between 1990 and 1992, and only fifteen per cent to Eastern and Northern Hungary (two third of the country's territory). Decades of neglect of infrastructural development led to the fact that very few settlements are prepared for receiving modern business. Actually, Budapest is an outstanding center, not only in Hungary but in East Central Europe, which can offer high level financial services and an acceptable level of communication.

The concentration of the economic activity makes urban pollution – air pollution originating from automobile emission and wastes – very serious in certain places. Environmental problems – first of all air pollution – became critical in the Hungarian capital city.

New regional processes rearranged the spatial order among regions. Earlier, industrial regions were called "developed regions": they assumed the highest employment and income level, and attracted most of the infrastructural investments. At present, traditional industrial regions are in deep crisis. The metropolitan area of Budapest has conserved its leading role. The regions of Western Hungary, especially those which are located along the Budapest–Vienna axis, enjoy a favorable economic situation. Geographical location – closeness to major national and foreign markets – become again an important factor for regional development. The Great Plain (Eastern Hungary) rural regions have even more symptoms of crisis than the old industrial regions have. At the same time, they do not suffer from an obsolete industrial structure. It's possible to open a new page in the economic history of this part of the country; there are some possibilities of the introduction of sustainable development.

Sustainable development – under the present Hungarian situation – has to satisfy the following conditions:

a) sustainable regional development projects should aim at the improvement of living conditions. Changes in the growth and consumption – on oriented paradigm may be introduced if we could assure a growing consumption of services instead of goods. Hungarian society is not an affluent society, people are looking for well – being. Since infrastructure has been neglected for a long time, people suffer from the lack of fast and comfortable mass transportation, the housing shortage the poor telecommunication system, inadequacy of health services. Many people can accept such a sort of development which is based on the improvement of living conditions. Evidently, environment is the most important condition of our life. Although environmental awareness is not very strong in Hungary, there is a growing

concern among young parents for the stake of their children's future. Sustainable development may mean constraints for affluent societies; it is less so in Hungary.

b) environmental friendly development projects should offer economic advantages for the population. We can offer labor – intensive development projects in agriculture as well as in the manufacturing industry. Presumably, we have better opportunities in developing labor and knowledge – intensive economic activities instead of capital intensive sectors. In the agriculture, collective large scale farming adapted the North American model, at least in the utilized technology. This model was worked out in the conditions of land and capital abundance and the scarcity of manpower. In Hungary, well trained manpower is in abundance, and capital is the scarce element. In the manufacturing industry, flexible, small and medium enterprises will probably have good market opportunities in a highly diversified European market. Environmental friendly technologies contribute to the competitiveness of industry.

Tourism – at present, one of the most profitable economic activity in Hungary – fits also to the concept of sustainable development. Since Hungary has neither seacoast nor high mountains, tourism should be based on a clean environment, on traditional rural landscapes, it should be diversified and geographically decentralized.

Our optimism is not excessive. There are a lot of uncertainties in the regulation of environmental protection including the lack of adequate, comprehensive legislation. There is a slow change in mentality of local decision – makers who work on development projects – many of them still seek to attract industry. There is a gap in the hierarchy of regional development – actually, there is no decision making level between central and local governments. Despite all these unfavorable circumstances, sustainable development has a chance in Hungary.

Notes

¹ Bruntland Commission (1987) *Our Common Future* p.46.

² *Ibid.*

³ quoted by Redcliff (1992) p.396

⁴ *Towards Sustainability* Commission of the European Communities (1992) vol. II. p. 3

⁵ Rees, W. E. (1990) p.18

⁶ Redcliff (1992) p.397

⁷ *Ibid.* p. 398

⁸ Rees, J. (1992) p.384 .

⁹ Enyedi – Zentai (1986).

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INNOVATIONS AND REGIONAL POLICY

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In the humanities, research into modernization and its interpretation played a central role in the eighties. Perhaps a uniform approach has been reached in the sense that the concept includes catching up with the peripheries and joining in the development centers, which naturally implies the institutions of the bourgeois post-industrial societies which have gained ground. Besides the multi-faceted appearance of the market economy, the elements of social care were also strengthened, and all these were coupled with increasingly dynamic co-operation and a continuous relationship and integration of the economies and societies of the various countries as well.

The researchers – and naturally the politicians, too – have associated modernization and the interpretations of its elements with the change of regime, turning their attention and interest to the necessity and possibilities of the political-institutional and economic transformation. Only a few of them have mentioned, however, or analyzed the aspects and effects of this transformation *on the basis of the spatial appearance of the economy and the society*. Yet these processes of renewal have always been asserted within a particular spatial structure, under the typical endowments of a particular scene, the far-reaching determination of the conditions and relations.

The market economy is not a one-point economy, but a spatial one. It follows precisely from the logic of the market mechanism that because of the spatial differences the cost inputs as well as the yields and results differ, namely the endowments of the spaces – let us put them under the headline "regional resources" – are different, generating and determining various economic behaviors. The actors in the economy are also different. Therefore, their activities and willingness to co-operate as well as their opportunities differ in the individual spatial points and within the network of settlements. The differences in the qualitative composition of the human resources exercise an influence on the functioning of the relationships, the market and production innovations of the economies of the individual spaces. The provision of the settlements with infrastructure and institutions has an impact upon the performance of the activities, the absorption and location of further ones. And last, but not least, we may mention the advantages and disadvantages arising from the geographical situation which follow precisely

from the political-economic realignment or the co-operation of a larger region, of a group of countries for instance.

Thus, it is clear that in the modernization of the society and the economy, its spatial appearance and processes have to be taken into account, too. A possible way of doing this is taking an account of and examining the spatial diffusion of the innovations, new activities and phenomena. Namely, certain points of the settlement network react to the reception of novelties in different ways and, as a result of their conditions and endowments, the adaptation of the innovation-bearing instruments and phenomena, this occurs sometimes quickly, sometimes slowly, which in turn influences the social and economic renewal.

In this paper, first we are going to present some general elements of the innovation-oriented regional policy applied in the western countries to illustrate the importance of the spatial appearance of the economy and the society, giving its new interpretation at the same time. The second chapter will deal with the important characteristics of the spatial diffusion of innovations in Hungary, to present thereby the spatial structure which is also divided by the reception of novelties and reconsiders the behavior of the centers and peripheries and the possible ways of achieving a breakthrough upon the impact of the renewal processes. Further on in the discussion of the possible application of an innovation-oriented regional policy, we are going to analyze the possibility of the resolution of the regional differences in the reception of innovations by the activation of local resources.

1. New paradigms in regional policy

In market economies, the regional policies always conform to the economic processes and respond quite rapidly to the changes taking place in them. The new order created by the economic restructuring and the shift in the international division of labor required a regional policy significantly differing from the earlier ones (EWERS, H. J. – WETTMANN, R. W. 1980.). The emphasis of the earlier systems of support, or rather development strategies was laid on *the physical inputs of production*, as well as on their regional distribution and equalization. By the end of the decade, it became clear that the investment-oriented regional development policies had not been quite successful, so the emphasis should be shifted to the exploration of the local, spatial resources and the creation of more favorable conditions for them instead. For the spaces and the economies, the regional policy creates a situation from the top in which they can adjust themselves to and cope with the changes of the economic structure and the international division of labor

(STÖHR, W. B. 1986). That is, the local, spatial endowments should be explored and after being transferred into a new activation space, the existing resources could be *renewed and reevaluated*.

It could be observed that in the behavior and activities of the economic actors the influence of the immediate environment is significant. Its character, quality and the development level of its components greatly influence the entrepreneurships, their possibilities and scope of movement (BRUGGER, E. 1984). Thus, the *endogenous* factors deriving from the local and regional endowments determine the limits of their regional economic processes which, however, can be activated by external innovation-bearing stimulating factors and be reoriented to a new development path. The *exogenous* factors are basically such software elements of the economy which embody new bits of knowledge concerning production and various activities, information on them and their instruments and institutions. The economic entities need innovation-bearing factors on account of their intensive relationship with the environment and their internal propensity to recover and renew. After they get in touch with these factors, an internal and external synergist interaction is created which results in the renewal and transformation of further innovations, laying the foundations of the functioning and location of the respective organizations (STÖHR, W. B. 1986).

Thus, the regional innovation potential can be characterized on the one hand by the ability of renewal which is revealed in the economic entities of a region in the propensity to adopt innovations and, on the other hand, in the local, spatial endowments which influence and stimulate economic movements and operations. It is clear then that as a consequence of the difference in the character of regional endowments, the innovation potential of the individual regions is also different, which has an impact upon the actors in the economy and their activities (EWERS, H. J. – WETTMANN, R. W. 1980).

The innovation-oriented regional policy aims at improving the local spatial endowments on the one hand, and at making available the innovation-bearing instruments, methods and institutions for the economies of the individual spaces on the other. In this way, the growth of incomes, the stimulation of interregional economic relationships is achieved not so much by the increase in the physical inputs, as by the multi-faceted stimulation of the local resources and joining them in the comprehensive innovative process. The conditions of the wide-ranging supply of information and communication are created with this purpose, and at the same time actions are launched to enhance the intellectual resources and to create the necessary conditions for the reception of the new knowledge.

In the innovation-oriented regional policy, there is a marked emphasis on *technological development*, the research and development (R&D) activities of

the economic organizations, as well as on the development and adoption of new technologies and procedures of production and activity (ELLWEIN, T. – BRUDE, E. 1982). The extension of the market relationships with the necessary factors and institutions (marketing and market research) is also important.

Obviously, the agglomerative character of the (large) urban economies is more favorable from the aspect of the innovative factors. Nevertheless results in spatial development have been achieved in the peripheral regions by means of this policy and related instruments. In the latter regions, it was possible for the small and middle enterprises to establish an environment in which the innovative ideas could be realized with their flexible, mobile and adjustable character being utilized efficiently. All of these affected whole spaces and their multi-faceted innovative processes (ÖROK 1989).

The *methods* of the innovation-oriented regional policy are flexible, multi-faceted and extremely sensitive to the local, spatial endowments and conditions, and at the same time they can be identified and described. Thus, the instruments of selective development, the improvement of the efficient operation of the business ventures, the extension and strengthening of the market links, the creation of the absorptive capacity with respect to new technologies, the diffusion of flexible production systems and so on, all play a role by transporting to the location all the factors which promote the establishment of ventures while stabilizing the existing ones at the same time. The location of such institutions which transfer the new technical-technological information and provide the required consultancy and organizational tasks in operating and promoting the business relationships is also important. Last, but not least, the preparation and training of human resources which enable them to receive the new or renewed production and activities take place within the framework of training, re-training and postgraduate programs (GLATZ, M. 1987).

The instruments and institutions of this policy do not serve direct intervention, but rather the creation of conditions and situations for the economic actors in which the reception and adoption of innovations and renewal appear as a natural, or even the only possible, solution in a given *space*.

The *instruments of the state* may appear at three levels here. The first level is the provision of *support for the entrepreneurs* who have target programs, by means of which they can enhance and improve their conditions and abilities of innovation. The *second level* is related to *the organizations transmitting regional innovation*, the creation of the conditions for their functioning and the co-ordination of their activities. Finally, at the third level the resolution of the regional entrepreneurial bottle-necks takes place. That is

the formation of such an institutional and settlement network which ensures a favorable environment for the reception and establishment of the innovations (STÖHR, W. B. 1986).

2. Innovations and spatial structure

Critiques of the domestic adaptability of the innovation-oriented regional policy may argue that in Hungary there is an economy in transition at present in which the institutions of the market economy have not been established, yet and the regional levels have only a symbolic autonomy, and therefore their scope of movement is limited and the spaces have to struggle with infrastructural deficiencies. Those who refuse this version of the regional policy are quite right with respect to a number of factors. We have to admit that the concepts of the earlier regional development policy and the related instruments cannot be applied in the course of this transition, or if they can, they will not accelerate the switchover of the economy to the market system, but will increase *the regional tensions accumulated* anyway. Naturally I have to make it clear already at this point that it would be naivete on my part to declare the absoluteness and *exclusiveness* of this regional policy above all. Instead of this, I state that *numerous elements of this regional development policy* may be applied, taken over and *adapted to the domestic relations*.

To prove this, let us survey the main characteristics of the spatial diffusion of innovations, as in the late eighties *the renewal of products, activities and organization were intensively launched*. The new means of production, the data- and information processing apparatuses appeared in large numbers, new businesses mushroomed with both domestic and foreign participation, new communicative techniques and activities were introduced and spread, the possibilities of obtaining knowledge widened, and finally, the local, spatial activity also found new dimensions and forms.

A) Some criteria for analysis

The investigation of the regional diffusion of innovations by means of different diffusion models is based on a very wide research base, offering a well-established storehouse of instruments for the analyses (WINDHOERST, H. W. 1983, NIKODÉMUSZ, A. 1991). However, their adaptation in the domestic research meets with numerous obstacles for the time being, the first and most important one being that, because of the novelty of the phenomena, *the time* required for the appearance and diffusion as well as the registration

of the novelties is extremely short and less suitable for use as a model. We could register a time-span worthy of examination only in the case of a few factors or novelty-bearing elements, in which the stages of the classical product life cycle were asserted and neighborhood diffusion was decisively characteristic (ENYEDI, Gy. – RECHNITZER, J. 1987). The new phenomena, factors embodying innovation, have cropped up and dispersed only during the past *one or two years*. Therefore, the examination of their diffusion, the indication and demonstration of their regularities are possible for the most part only *by means of descriptive methods*. In the investigation, the selection and assignment of the factors and activities embodying innovation, as well as the collection of the relevant *information* cause difficulties. We have to see that it is the unfolding of the market economy which brings about a greater and greater number of innovations, the establishment and diffusion of which takes place on the basis of different characteristics and requires an extremely great resourcefulness on the part of the researcher in obtaining the data bases relating to their behavior. Finally, in the current situation the classical requirements of the transmission of innovation *have not been asserted yet*. The reason for this is that real markets with the related institutions and ways of behavior, and forms of reaction are in the process of being spread, or rather are being mixed with a former economic structure and related mentality. In the *mixed, transitional condition* it is not easy to unambiguously identify the driving forces, generators of diffusion and establishment. Therefore, the investigations¹ have to be restricted to the *description* and presentation of *the relationship between the innovations and the settlement network*, rather than to use a complex model of the multi-faceted interrelations. Because of the limitations mentioned above, I am going to follow the spatial appearance and diffusion of innovations at two levels.

B) The main innovators and their diffusion in the country

With regard to the whole of the country we examined the diffusion and establishment of two innovators deemed to be the most important (RECHNITZER, J. 1991a). Basically these factors can be divided into three groups:

a) In the field of *economic innovations- entrepreneurial activity* we are going to follow with attention the territorial appearance and diffusion of new economic organizations, such as the economic associations and business ventures with foreign intercompany participation, as well as the initial steps of privatization. It could be pointed out that the new economic organizations

diffuse very dynamically in the whole of the country, in each regional unit. But there are differences partly in the character of the settlement network, and partly in the spatial situation. In the cities and, to a lesser extent, in the individual units of the settlement network new economic organizations are located, and from the spatial aspect all these have been situated decisively in the capital and the industrial-economic centers of Transdanubia in the recent years. Lately (from the beginning of 1991) a spectacular rise in the foundation of companies has been registered in the Great Hungarian Plain and in the areas of Northern Hungary, i.e. there has been a marked diffusion of new ventures from the western to the eastern areas. In economic associations with foreign intercompany participation, the former tendencies were asserted as well, but, concerning location, these organizations are more responsive to the infrastructural supply and the closeness of the markets, namely, they are linked to the more favorably equipped production bases and capacities by acquiring and making them part of the businesses. Obviously, the foreign capital to be invested is attracted mainly by the trade branch. Producing firms with foreign intercompany participation have appeared in Northern Transdanubia and in the capital. At the same time, in Budapest and some cities there has been an increase in the number of the organizations which provide services, from which it can be concluded that the local, regional markets have revived.

b) I have included among the new *forms of communication and relationships* the factors which can transmit innovation as a result of the fact that the country has become more open, and can register it by means of a new technical, information system. With regard to the former, conclusions can be drawn on the basis of the number of world passports issued (RECHNITZER, J. 1991e). It is clear that the populations of North-Western Transdanubia, of the neighborhood of the capital, the region of the Danube and the several towns situated by the southern borders of the country quickly took advantage of the possibility of unlimited travel. Consequently, material innovations must have reached these spaces earlier, and the elaboration, and adaptation of the foreign experience could commence sooner. The regional diffusion of computer technology has been also characterized by dynamism since the mid-eighties (RECHNITZER, J. 1990), but the reception was not significant unambiguous in the economically decisive centers. The sphere of enterprises, offices and institutions was affected by a wave of installments, and personal computers took over the role of the formerly used equipment everywhere. By the end of the decade, in addition to the extremely wide hardware supply, a software market had also developed, and as a result of this the computer became a natural partner in administration, information supply and education.

In our opinion, *the most significant indicator and most comprehensive embodiment of the domestic modernization is computer technology*, as in all regions and settlements of the country and nearly all forms of activity it has become deeply rooted, assisting thereby the adaptation of further innovations.

c) We included under the headline *socio-political innovations* the local-regional political, economic and communal actions having taken place with the change of regime (1988–1989), which were initiated by local organizations, groups and communities, reaching the opinion of the general public (through the national daily papers) and being registered there (TELEKES, A. – RECHITZER, J. 1989, 1990). The antecedents of the change in regime, which is rarely to recur in a life-time, arose tangibly not only in the economic-political center of the capital but, at the beginning (1988), in several cities of the country where significant intellectual bases (mainly in higher education and culture) were functioning. The social-political innovations, appearing first from time to time, then on a regular and wider basis, asserted themselves with different intensity in the other elements of the city network (1989), reflecting the situation and activities of the individual strata of the population, as well as the influence and role of the former local-regional political power. In those points of the settlement network where the structures are more traditional and a wider strata of the population could preserve – or rather save – the bourgeois traditions, more versatile comprehensive social-political innovations appeared and all these were manifested in the preparation for and participation in the elections of 1990, too (RECHNITZER, J. 1991b).

C) The reaction of spaces to innovations

In the analysis of the innovation potential of the spaces,² we have to find a reply to the question of which endowments, conditions of innovation are available for the economic entities which function in a given group of settlements. How these are affected by the provision of the settlements and regions with equipment and institutions, and by the qualifications, skills, entrepreneurial and economic activity of the population there? Finally, we have to see clearly from which centers the innovations are transferred within a given region, from where they are presumably transmitted.

We examined the conditions and possible ways of renewal in the depression zones of Tata–Tatabánya–Oroszlány and Esztergom–Dorog (SZÖRÉNYINÉ KUKORELLI, I. 1989, 1990.) and in a backward, disadvantaged space (RECHNITZER, J. – SZÖRÉNYINÉ KUKORELLI, I.

– CSAPÓ, T. – LADOS, M. – KOCSIS, Zs. 1991) we surveyed the endowments available for the reception and adaptation of innovations. Finally, in the regions of the Austrian-Hungarian border, such as Burgenland, Győr-Moson-Sopron and Vas county under identical requirements of analysis, we did research the role of the qualifications of the ventures and the workforce with respect to the establishment of an innovation-oriented cross-border co-operation (RECHNITZER, J. 1991c; NAPP, I. – HOFSTÄTTER, M. – DENK, G. – RECHNITZER, J. 1991).

It is not possible to discuss the individual analyses in detail, yet we have to highlight two general statements. The diffusion of innovations is influenced fundamentally and decisively by the *economic and social factors, their institutional, organizational and attitudinal endowments*. With unambiguous relationships, clearly defined economic actors and roles – even with less favorable provision with equipment and underdeveloped infrastructural relations – the diffusion of the innovations is faster and smoother than in a society which is trying to find its place and still facing transformation. At the same time, with the stabilization of the relations and roles in the spaces formerly regarded as backward, disadvantaged or depression zones, the organization of ventures related to their endowments may be launched; innovations appear and the moderately-paced process of adaptation may start as well. The other statement is that *each space has endowments* in need of reevaluation which might give the foundation, or at least one of the *marginal conditions of the reception and establishment, of the innovations*. In addition to the local-regional system of instruments a nation-wide regional policy and a system of clearly specified instruments are necessary for the activation of the endowments.

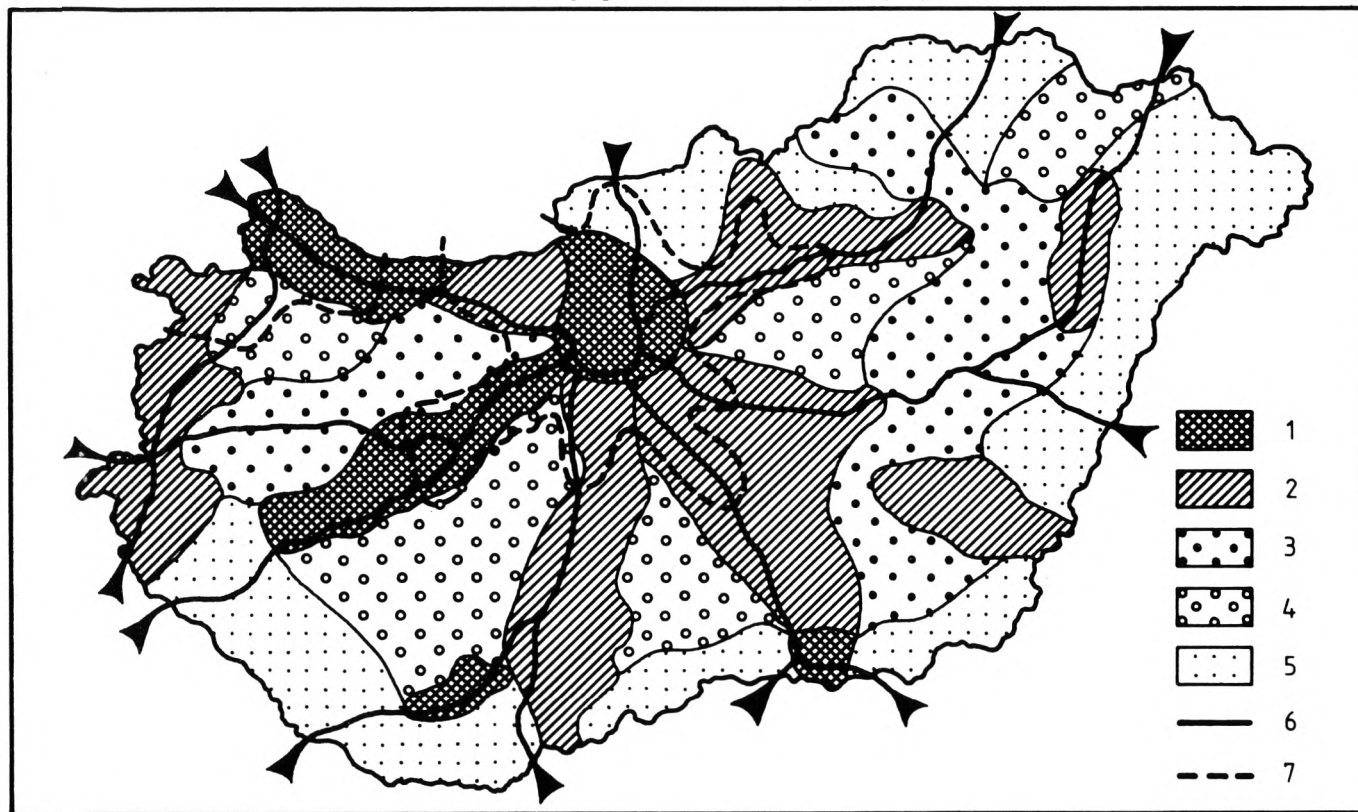
D) The formation of the spatial structure by innovations

In this way, the appearance and diffusion of the innovations have intensified the differences between the regions on the one hand, and added further elements of division on the other hand. On this basis, the following spatial types could be distinguished in the country (*Figure 1*).

1. Innovation zones

We could outline the following innovation zones on the map of the country: the capital and its agglomeration, the region extending from the Austrian border to the region of Győr, Lake Balaton and its district reaching as far as

Figure 1
The division of spatial structure of Hungary



Key: 1 – innovation zone; 2 – potential innovation zone; 3 – depression zone; 4 – internal periphery; 5 – external periphery; 6 – transit lines, the most important corridors of tourism; 7 – gravity zones of 1–1.5 hours around Budapest and Vienna.

Budapest, and the agglomerations of Pécs and Szeged. These regions are characterized by the concentration of such economic regions which are responsive to the innovations, their application and spreading, i.e. interdependence and interrelation have been formed between those which generate and stimulate both sides, motivating a synergist relationship at the same time. Furthermore, in the majority of the population significant entrepreneurial knowledge and experience have been accumulated, which is coupled with more favorable incomes and a higher rate of capital accumulation. However, in the innovation zones the quantity and quality of the settlement and linear infrastructure there is still very objectionable and it does not meet the required standards. In various factors a lagging behind and neglect can be observed, although on the whole they are still able (even beyond the limits of the available capacity) to serve and promote economic-entrepreneurial activities. The innovation zones are exposed to the effects of the European economic centers and bear in themselves the continuous presence of the foreign capital and foreign specialists, the initiatives to cooperate and be evaluated. Consequently, the spatial economy and an increasing part of the population operating in it continuously adapt the market relations and their ability to react to those effects.

2. Potential innovation zones

Potential innovation zones can be found along the main transit roads (the regions between Kecskemét-Szeged and Debrecen–Nyíregyháza, by the lane along Motorway 3 extending as far as Miskolc, the area of Tata-Tatabánya as far as the agglomeration of Budapest) and in the regions preserving and reviving the entrepreneurial traditions (the lower reach of the Danube on both sides, the region of Békéscsaba–Gyula) and finally, in the regions along the western border, the opening of which put an end to our isolation. In these regions, the various elements of renewal have appeared only recently and they have not been able to interrelate to each other. The synergist processes have not started yet as a result of interactions, but nevertheless they have found favorable resources and the revaluation of numerous resources can be expected in the future. They can ensure a place and market for several new economic activities, accumulating a great amount of knowledge on account of their traditions and links, but the initiatives are still autonomous, and the mentality required for the focusing of the multi-faceted relations of the market economy has not developed yet in the activities. Foreign relationships are being organized to respond flexibly to the new type of communications, but because of the long-standing isolation, or, in a number of regions, because of the passivity (uncertainty) of the neighbors they do not have enough

experience in international co-operation yet. To go beyond the innovation threshold, the radical widening of their tertiary function is necessary, as well as the modernization of the transportation and telecommunications systems and last, but not least, the development of such co-operations between the regions and settlements which support and stimulate the propagation of information about their endowments and the location of new activities or the ones which serve the renewal.

3. *Peripheries*

Among the peripheral spaces, two types can be distinguished: *the internal peripheries* (from the Downs of the Rába to the hilly country of the Bakony, Mezőföld, the southern spaces in the area between the Danube and the Tisza) are transitory regions, which are partly characterized by a one-sided economic base – mainly by the agrarian sphere. Their weak, insufficiently functioning centers are not able to raise resources, and since they are frequently situated along the county boundaries, they have been neglected (in the field of infrastructural development and the establishment of supply systems) for decades. These spaces do not have an independent industry, or incidentally any other economic potential, and at the same time several of them are rather vulnerable to the effects of the other large economic-industrial centers, to the unfavorable circumstances or uncertainty of the economic (chiefly) industrial restructuring there. Therefore, a lot of internal peripheries may find themselves in a more serious situation and become scenes of sectoral crises. Because of the lack of significant centers abounding in functions and because of the long distance from them, they are unable to create the conditions of the reception of renewal, but to put it simply, there are traditional and historical peripheries among them, too. Their scope of movement, as well as their chance of unfolding, is limited. The assertion of the interests of the internal peripheries is minimal because they are unable to control the processes and do not represent a concentrating force, therefore, they may only expect a gradual and general economic boom.

The *external peripheries* situated in the border region likewise can be divided into two groups:

The first group includes the *regions by the Austrian-Hungarian border*, which can be classified as new activation regions and *potential innovation zones*. These come into direct contact with the neighboring Austria and may become participants in an innovation-oriented regional integration (RECHNITZER, J. 1991c).

The *regions of Hungary which lie along the other borders* are not in such a favorable position. In our opinion, within the next 3–5 years no significant

integrative processes can be expected in the spaces along the northern, eastern and southern borders. The disintegration of the ex-socialist countries into nation-states can be registered today and in the immediate future they are not likely to encourage cross-border regional co-operation, since they will be absorbed in seeking and shaping their own identity. Thus, presumably in the cross-border links the traditional and occasional co-operation initiated individually will prevail.

4. *Depression zones*

In our view, the depression zones are characterized by the fact of having lost their earlier -nationally and regionally also significant- economic field of activity which they could not renew for various reasons. Consequently, there was a decline in the demand for their activities and more and more losses had to be registered *on account of the transmigration of the innovative, creative population*. So the difference between the depression zones and the peripheries is that in the former there are centers, and the economic-infrastructure conditions and endowments of which are significant, yet they are closely interrelated with their economic bases. All these, however, functioned only in a definite economic-political environment, according to the requirements there and, of course, with significant support. With the structure-shattering transformation of the environment, disruption in the functions arose which then permeated the centers, nearly all their fields of activity, as well as the narrow or wider region launched a whole series of crises.

On the basis of the appearance of innovations in *the first type* of the depression zones (Miskolc and the Valley of the Sajó, Salgótarján and its environs, the space of Bakony), much fewer innovation-transferring factors gained ground as compared to their *economic and settlement network endowments* and supply, and no close interaction occurred between them. *The second type* is characterized by both *agricultural endowments which can be highly evaluated* and the presence of the production basis (in the territory east of the Tisza) where the innovation-transferring elements appear only by way of signalling. Furthermore, the centers there lack in functions, are one-sided and are not innovation-friendly for the time being.

On the basis of the spread and establishment of the innovations, the depression zones can be interpreted as centers and regions which are greatly under-represented *in comparison with their endowments and regional resources*.

Presumably the situation of the depression zones *will not change significantly until the mid-nineties*, or rather the loss-making economic

entities might be liquidated by means of radical economic intervention, but thereby only the tip of the iceberg would disappear, yet the strains of employment and the supply of settlements would not be resolved. To achieve success in all this, the thoughtful elaboration and consistent application of the system and methods of crisis management, which conform to the whole economic transformation, would be required.

E) Centers and peripheries in transition

In addition to the *east-west difference*, the *division of the north and south* is becoming more and more distinct. There has developed an innovation zone in the north-west which is relatively well provided for and capable of more activity and is creeping slowly towards the north-east, while in the other regions the signs of dropping behind, being pushed into the background, are manifested ruthlessly.

The center-periphery-related position and character of the settlements and spaces offer quite different requirements of adjustment for the solution of the economic crisis, indicating at the same time the possibilities, limits and instruments of the innovation-oriented regional policy to influence and stimulate the economy.

And now let us have a look at the effects of the economic recession upon the centers and peripheries, and suggest possible ways and means of solutions:

1. Centers

1. In the large industrial centers the cutback is explosion-like and large-scale. In the case of the ones, which organize heterogeneous branches, however, tensions arise with some delay, so the possibilities of preparation and adaptation as well as the number of job opportunities are wider and greater.

2. The majority of the workforce are qualified and flexible, the systems of retraining and further training are given, or can be established locally.

3. As a result of the active and concentrated local and regional demand, and because of the more favorable production and social infrastructure the entrepreneurial environment is more active.

4. With the disintegration of the economy, the social and social welfare tensions are multiplied and become more tangible, and at the same time there

are already functioning institutions and mechanisms available for remedying them.

5. The conditions, models, experience and partly institutions of the switch in organization and activity can be also found, and it is easier to get and make use of information about them.

6. The quality of the environment is deteriorating, or its condition is bad, and difficult to improve in the chronic depression zones. This impedes, or frequently excludes, the location of the dynamic branches.

7. The forms of information, possibilities of connections and co-operation with the related institutions are being built up, however slowly. (Business services, market co-operations, innovative ideas, their financing, a background of financial institutions, information centers etc.).

2. Peripheries

1. Because of the relation of the industry to locations, the cutbacks and lay-offs start in these regions first, but gaining organizational independence is circuitous because of the lack of local management and autonomous business relations. The absorption of the work force is not possible yet on account of the lack of other industries and ventures.

2. The work force is unskilled, less flexible and extremely immobile, or is trained one-sidedly.

3. The small local, regional demand is moderate, the incomes are low, the consumption is one-sided, and the business environment is passive as a result of the population becoming too old. The incidental appearance of special products and activities is impeded by the underdevelopment of the infrastructure in the field of production and settlements, as well as by the lack of business and financial services.

4. The comprehensive economic cutback affects nearly all of the multi-channel income systems. The population is afflicted by the combined disruptions of the industrial and agricultural activities, but because of the consumption level and structure, the disposition of self-sufficiency and self-support with the related instruments and conditions is given. The management of the tensions arising in social care is restricted because of the overall lack of resources and institutions.

5. The possible method of the switchover in the activities is the renewal of the agrarian production. This is limited on the part of the entrepreneurs by the lack of experience in up-to-date production, the shortage of capital, the underdevelopment of the modern cultures and the market connections and finally, by the postponement of the subsidies granted for the purpose of the

In the regional policy, besides the stimulation of the centers the elaboration of programs activating the peripheries and the complex outlining of such stimulating actions and systems are precisely what is needed for the launching of the farms of a given space and for the spread and establishment of the new forms of production and activity.

3. Applicable instruments, institutions of the innovation-oriented regional policy

In the spatial structure, because of the reduction of the *economic structure*, a perceptible division, a peculiar transitional form of the center-periphery relationship can be pointed out. At the same time, on account of this in a few regions the inflowing innovations, innovation-bearing instruments and organizations can be received and adapted. Thus, *the task facing the innovation-oriented regional policy is to ensure the expansion of the market economy and its related institutions at every level of the economy and the spatial structure, the activation of the regional and local resources and the spatial extension, and distribution of the renewal processes taking place there.*

In the spatial structure, the *impeding, obstructing factors of the entrepreneurial innovations can be gradually eliminated or, in certain regions, be moderated by means of this policy and its system of instruments, while at the same time the building up of the background systems serving their spread and renewal also can be encouraged.*

Under domestic circumstances, *the infrastructural conditions* are decisive, therefore being a factor in production, communications and the background economy of numerous settlements.

In our judgement, the infrastructure is the alpha and omega of any regional policy and it should not be discussed further. It is the essential duty of *both the central and local governments* to develop infrastructural systems and improve their quality.

Training is to serve the renewal of the human capital by means of such institutions of education, retraining and further education which are supported also by the central and local governments, and the associations of entrepreneurs may also play a role in training, in the conveyance of innovations.

From the aspect of economic renewal it is essential that the entrepreneurs should always live under the permanent pressure of the need for innovation. For this purpose, the timely information on new technologies, technical equipment, as well as on the market outlets and the conditions of entering the

markets should be accessible in their environment. Highly important is the R&D activity of the business ventures and ensuring the circumstances for the creation of the technical, technological innovation, familiarization with them and the promotion of their adaptation. The innovation-oriented regional policy cannot be separated from *the technical development policy of the country*, for there exists a close relationship, an interdependence between them. A separate study should be devoted to this issue, but the main point is that *regional elements* should appear in the financing of R&D, which would appear chiefly in the establishment of innovation centers, the building up of technical-technological information networks, the support of technical-technological advice centers and giving preference to the R&D activities in the regions (centers and peripheries). The number of the actors may be increased, since these institutions need significant support from *the central government*, but the local-regional governments may also subsidize the development of innovation and technological transfer centers. At the same time, the financial institutions, associations of entrepreneurs, *business federations* may offer funds for their operation.

In the systems of *financing*, the space-specific character should be asserted (here I am referring to the preference given to the businessmen in the peripheries), but in the awarding of preferential financial subsidies the needs based on innovations should be emphasized. The central government may have the required instruments to assert these principles, yet in the elaboration of the objectives of financing, it is necessary to bring them in harmony with the R&D policy of the country.

The local, regional governments, the business federations and the communal groups can all participate in *the establishment of the information basis of the business ventures*, from the exploration of the financial resources through management and organizational consultancy to the analysis of the inter- and intra-regional production links. The consulting and management organization are essential components of the innovation-oriented regional policy, because these *catalysts* may assist the interconnection of the endogenous regional resources with the external, exogenous factors inspiring and generating renewal.

A few elements of this innovation-oriented regional policy have already appeared in *the domestic practice*, such as the foundation of seven business development centers³ with the support of Hungarian Business Development Foundation and the European Community, but the setting up of further ones is also being urged. The positive feature of this initiative is that it is based on spatial programs, the use of local resources, but multiplying them by the addition of central and foreign funds. The initiative launches actions in the field of all the enumerated factors – naturally with the exception of the

infrastructure – and makes efforts to establish local networks. Another, perhaps less successful, initiative was launched in the mid-eighties and it was aimed at the establishment of innovation parks in large universities and centers of higher education (KRANNER, R. – RECHNITZER, J. 1991). In the project the establishment of some 10–12 innovation parks was envisaged⁴ but, because of the peculiar domestic circumstances, in fact only two or three experiments have remained viable up to the present (MOSONINÉ FRIED, J. 1992) and only a small fraction of the original concepts have been realized within their framework.

4. The basic requirements to be met by the regional policy

There are necessary and sufficient conditions of the operation of the instruments and institutions of the innovation-oriented regional policy without which neither the solutions of the regional development strategy, nor of the regional policy can be viable.

1. The former regional policy aimed at equalizing and moderating the territorial differences and ensuring uniform living standards which can be accepted by everyone. Naturally, it was a wishful dream because it is impossible to equalize the territorial conditions, their essence lying in the fact that they are different. The direction of the switchover in regional policy should be based on a realistic, market-oriented evaluation of the *regional endowments as endogenous resources*. The conditions of the appearance, establishment and functioning of the economic entities – as the best instruments of probing these resources – have to be guaranteed everywhere. These conditions can be *determined in the settlement and social infrastructure*.

It should be emphasized that in the regional policy, first of all, the *infrastructural information absolutely necessary for the economic functioning of the spaces and individual settlements should be ensured by means of the central instruments of the state*. Ensuring does not mean that the building up of these elements of the background economy should or may be realized only by state or central funds, but rather that the central organs should support the development of the spatial infrastructure and its various methods of solution (concessions, the use of state preferences and funds, giving preference to business ventures, etc.).

The system of support and stimulation can be asserted at two levels. Firstly, at the level of *the elaboration of the national infrastructural development programs*, in which the sectoral professional principles *have to be continuously controlled by the regional levels*, because they may succeed

only if they are in harmony with the latter. Secondly, at the level of the *local and regional infrastructural business ventures* (the elaboration and guaranteeing of favorable (stimulating) conditions for them). In the regional policy, it should be emphasized that *the ventures operating and developing the local or regional infrastructure* are to be supported for the purpose of the activation of the regional resources, and they *are to be given privileges* according to the possibilities of the national economy.

The infrastructure is the basis, as well as the important element of, the functioning of the economy; its development ensures the activation of the settlement resources and therefore should be regarded as *a primary economic factor in the formation of the regional conditions of the market economy*.

2. The infrastructural conditions of the economic functioning has to be guaranteed by the national, local and regional businesses, but this can be realized only *if there is an unambiguous relationship between the income of the regional economy and the revenues of the local governments*. According to the regional policy, a determined part of the income deriving from taxes should be the due of the spatial, local governments, and their centralization and redistribution should be eliminated or significantly moderated. The same holds for *the personal income taxes*, an increasingly significant share of which should be transferred to the local governments. The recently introduced system of local taxes and rates cannot give a solution once and for all. In changing the fiscal policy *the local, regional shares should be enhanced*. Preferably within the uniform system of taxation there should be a division for the financing of the central and local tasks. This is a way to widen the local, regional subsidies, stimulants, preferences, economic activation possibilities which could be ensured by the central government as well as by the spatial local governments.

It is essential that between the income-earning of the economy and the population and the revenues of the spatial local governments there should be an unambiguous relationship. It is not the variety of the taxes that this system requires, but rather uniformity within which the local, regional shares may already contain important stimulating differences.

3. A profitable economy may be created only *by means of free and multidirectional business ventures*. These days and in the future, numerous new economic actors may turn up, among them *the economic ventures of the communities, the local governments of the regions and settlements*. It is of utmost importance that they should have the freedom to form associations, have assets at their disposal and invest them, as well as participate in the actions of the local, regional economy and act as equal market partners. No

limits or reservations should be maintained against the ventures of the local governments; this can be done only by the local community and the population themselves. Presumably the mechanism of this has not been formed yet, but with the extension of the system of self-government, the institutions of local population control may be created in the future. Besides the ventures of the local governments, the role of the *communal ventures* which may be embodied by foundations and other non-profit organizations should not be neglected. Finally, the application of *the institution* of local, regional *concessions* should not be forgotten either, but rather should receive support.

4. Does the local, regional economy built upon free business ventures and a lot of economic actors require *regional planning and the elaboration of programs*? The reply to this question is a definite yes, it is necessary to have *long- and medium-range regional programs* and plans. When we make that statement, it naturally follows that the former practice of planning, the programmed distribution of the resources should be terminated. The emphasis should be laid on *the creation of the conditions required for the functioning of the economy at the local, regional level*. In ensuring the marginal conditions of the economy, the above mentioned *infrastructure* for example, the stimulation of *the business environment* and the outlining of the conditions of its financing, the moderation of the *loading limits of the environment*, the planning of the schooling, cross- and re-training circumstances related to *employment*, and finally the determination of the actions providing outlets for the *social tensions* should be highlighted. The local, regional planning and its basis, the *local economic and social policy*, cannot do without a comprehensive information basis on the one hand, and without keeping track of and registering of the processes and trends related to this group of issues on the other hand without doing *continuous and professional regional analyses* and systematic investigation to lay down the scientific foundations.

In the regional policy it should be formulated that at the local and regional levels *economic and social plans (programs) have to be prepared*, and for this a wide-range information basis and *an apparatus of researchers and analysts* who are independent of the regional-local governments and capable of processing and evaluating them are required. These government-supported organizations are such monitoring bases which indicate the diffusion of the market economy, and also *register and give feedback about the spatial effects of the economic measures of the government*, and at the same time are important supporters of the elaboration and implementation of the local, regional policy and programs of the local governments.

5. The identification and determination of the institutions of planning and analysis are also important because in economic – and also social, social welfare and environmental – thought there is a shift from the national dimension to *the regional spatial levels* according to the *European standards*. *Regional-level* planning, fiscal policy, budget, systems of support, institutional structure, and numerous other programs stimulating the economy may determine a new, so far unknown ways of approaching and assisting the *more rapid and fuller integration* into the economy and institutional system of Western Europe.

It is necessary then to define the *regional level*. This can be equivalent to the present division into counties, or a combination of it, but the system of state institutions and planning and even more the system of drawing up regional programs and analysis should be adjusted to the regional level.

Notes

- 1 Henceforth we made use of the findings of the Ts-2/2 Project entitled "The Possibilities and Conditions of the Diffusion of Innovation (System of the Centre-Periphery Relationships)" (RECHNITZER, J. 1991d).
- 2 In writing this chapter we made use of the statements included in the OTKA research project entitled "Instruments and Methods of Modernization in the Spaces and Settlements" (RECHNITZER, J. 1992).
- 3 So-called regional business development centres have been established in Szekszárd, Miskolc, Szolnok, Kaposvár, Székesfehérvár and Vasvár, but the foundation of 6–8 more is planned for 1992. (Hungarian Business Development. 1991).
- 4 Innovation parks were planned in five institutions in Debrecen, Miskolc, Veszprém, Szeged and Paks, but actually the ones in Debrecen and Budapest are operated in the spirit of the original objectives. The park in Miskolc already performs a wide range of business and financial activities.

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REGIONAL DIMENSIONS OF THE HUNGARIAN ECONOMIC TRANSFORMATION

NEMES NAGY, József

1. Transformation processes of the economic system

Between 1989 and 1992, the transformation of the Hungarian economy has been governed by interrelated processes which carry both positive and negative tendencies:

- the legal and economic institutional system of the market economy is being built up
- the property relations are being transformed (the disintegration of the dominant state and co-operative ownership as well as privatization and the inflow of foreign capital have been commenced
- the organizational forms of the economy are being changed (the state owned enterprises are replaced by private companies)
- the number of small and medium size enterprises is multiplied
- the shift of foreign market orientation is taking place (trade and co-operation with former COMECON-countries have been radically reduced)
- in fact the competition in imports is becoming comprehensive
- the weight of the producing branches (of industry, agriculture) is being reduced, the economy being transformed into the tertiary sector
- whole branches of industry (e.g. metallurgy, mining) are creating a crisis in both the income-producing ability of the economy and the GDP decrease, a high budgetary deficit appears
- there is a powerful differentiation in the performance related position of the managing units, in the wages and salaries, with unemployment arising and becoming large-scale.

These processes are only partly the results of central governmental measures, and the role of responses in management given to the overwhelming market conditions is becoming stronger and stronger. Since 1991 and 1992 were critical years from the point of view of economic performances (on a nation-wide level the GDP decreased by 10 and 5%), the negative trends of restructuring in particular became marked.

The effects, consequences of the deep social shifts mentioned above – which can, of course, be broken down into further components – affect each region and settlement of the country, and in this sense the transformation of the economy is global and comprehensive. At the same time, these effects are spatially differentiated, leading to a critical situation in certain areas, while elsewhere transformation is taking place under relatively balanced conditions, and in certain cases the positive elements of the transformation are becoming dominant within a short time.

In different parts of the country, the organizational transformation of the economy is making progress at a different pace and with different characteristics, with different entrepreneurial activity and presence of the foreign capital, differentiated economic outputs, and the individual areas are afflicted by unemployment to a different extent.

In this paper, an attempt is made to make this perceptible on the basis of economic statistical facts (from among the above-mentioned processes, the regional expansion of unemployment will not be dealt with in detail, since it is the subject of another in-depth study in this volume). The investigation will be done in several regional and settlement segments. We will separately analyze the position of the capital within the country and the internal urban structural division of its economy, the differences in the entrepreneurial activities between the main settlement types, the differences of economic profitability, as well as the characteristic features of the smaller areas (town districts).

The analysis is concentrated on the period from 1989 to 1992, documenting in details the year 1991, referring back to the antecedents only in a few cases (NEMES NAGY, J. – RUTTKAY, É. 1991). The paper is based on the statistical sources on firms as well as the primary processing of company balance-sheet data, from which regional information can be obtained according to the seats of the economic entities.

2. Regionalism of the foundation of companies

The number of the business companies was doubled nearly three times between 1988 and 1992, with a low decrease in the number of the traditional organizational forms (of enterprises and co-operatives). The growth is the consequence of the mushrooming of companies (limited liability companies above all). As of December 31, 1991, the establishment of 63,000 companies was announced (Trade Register, 1992). From among these firms, only 2,800 were founded prior to 1989, at the same time during the year 1991 more than 44,000 were established and the process is still going on with undiminished

energy. Merely half (30,000) of the companies are limited liability companies, which number is approached by the combined number of the deposit partnerships and the economic working communities (unlimited partnerships), the data source also informs us about more than 800 companies limited by shares (the remaining part is comprised of other forms). From among the registered firms the proportion of those which were closed down amounts to 10%. With regard to their capital intensity, four-fifths of the new firms have minimal capital intensity (the prerequisite of the formation of an limited liability company is 1 million Hungarian forints capital stock), and only the investments of the companies limited by shares (having been transformed from large-scale enterprises) and the multinationals concentrate significant capital within the individual organizations. Even today, the privately owned small economic associations are characterized by the fact that they do not present a primary activity for their owners (the most characteristic feature of the "socialist small businesses" in the eighties is inherited both in the low capital intensity and the great weight of the auxiliary activity).

The end of 1991 is an important date in the organizational and ownership transformation of the economy. Since 1992, transformation into associations has been a mandatory, dictated action for the state-owned enterprises and it includes the agriculture as well. This will reduce the still existing strong regional differentiation of the number and concentration of the associations, limiting its content which indicates the development level, dynamics and spread of the forms of associations (CSÉFALVAI, Z. – NIKODÉMUSZ, A. 1991). Yet the attraction of the concentration nodes having come into being largely in a spontaneous way under the effects of the market – and their agglomerative advantages will lastingly remain.

Of all the new companies, 38.4% are seated in the capital (within this 42.5% of the limited liability companies, 51.6% of the companies limited by shares are seated in Budapest). The provincial county seats serve as seats to 27.1% of the companies, other towns giving seats to 21%, and communes to 13.5%. (20% of the country's population lives in the capital, a further 40% lives in cities, and the number of the population living in communes reaches approximately the same number). In the case of the joint ventures which were formed with the investment of foreign capital, even these proportions are exceeded in the share of Budapest and the cities. Similarly, the nearly half million private businesses are characterized by a strengthening urban orientation. The economic transformation has been characterized by a strong dominance of the hierarchy of settlements up to now.

If we look closely at the regional distribution of the economic associations, then besides the capital–provinces duality and the metropolitan

concentration, we can observe a marked regionalism between the western and eastern parts of the country.

The major concentrations of the new economic entities can be found in the capital and its agglomerations, along Lake Balaton, in the towns of the western borderline and along the Danube (*Figure 1*).

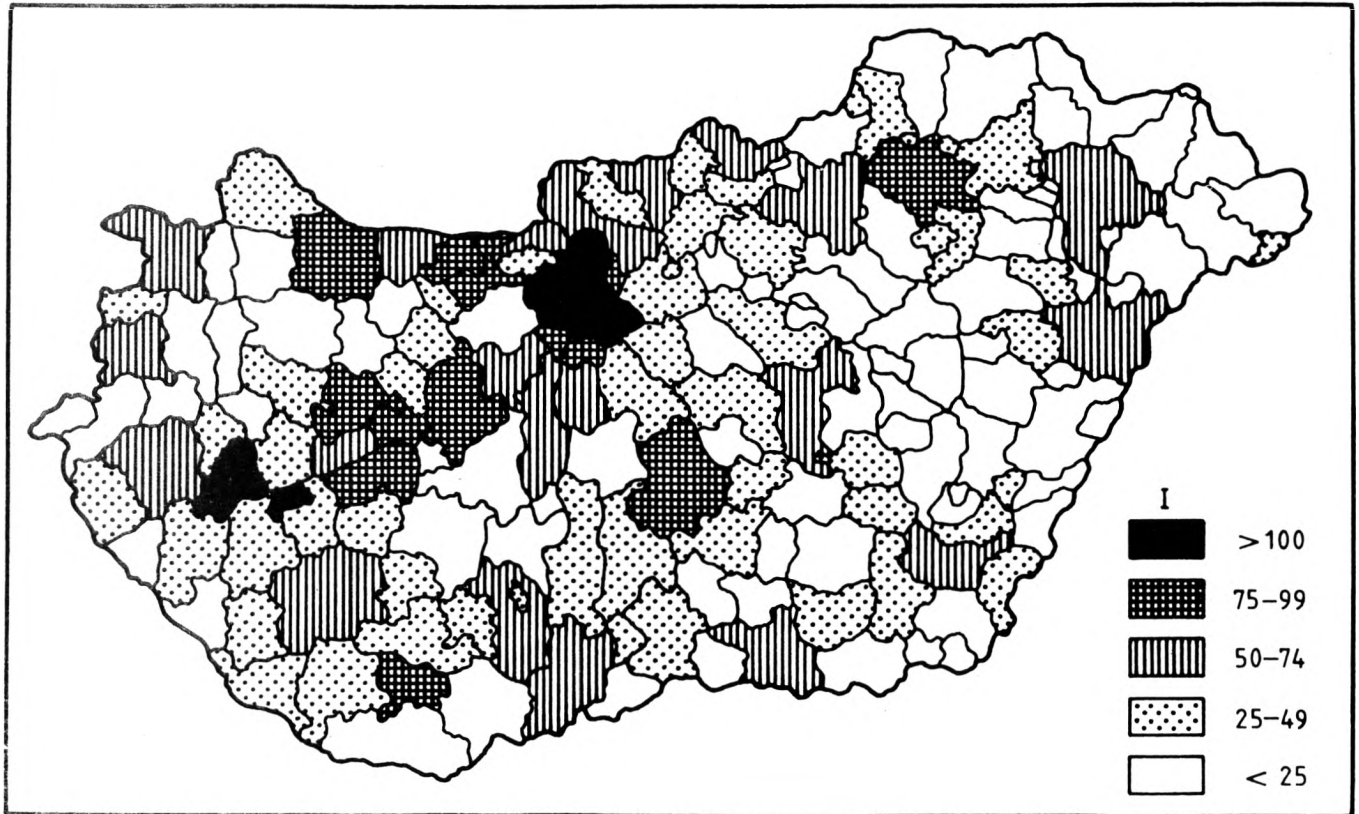
With regard to the absolute number of the associations, there is a clear dominance of the capital and its agglomeration all over the country. (In these two regions together about 30,000 companies are concentrated.) On the basis of the concentration index (the number of organizations projected onto the population), the same zone can be mentioned again (the capital; Szentendre, which belongs to its agglomeration and the city district of Budaörs; this is followed by the districts along Lake Balaton (Keszthely, Fonyód, Balatonfüred); and the value of the town district of Tata is particularly high (while on the nation-wide level there are 62 associations per 10,000 inhabitants, the values in the former spaces are above or around 100).

In the other regions of the country practically only the county seats and their environs excel. Obviously this is true of the position of Pécs in Baranya county, and a similarly outstanding position is characteristic of the Miskolc district as compared to its own county.

In the capital, which is regarded as the largest concentration center, marked segregation has been characteristic of the distribution of the economic associations during the past three years.

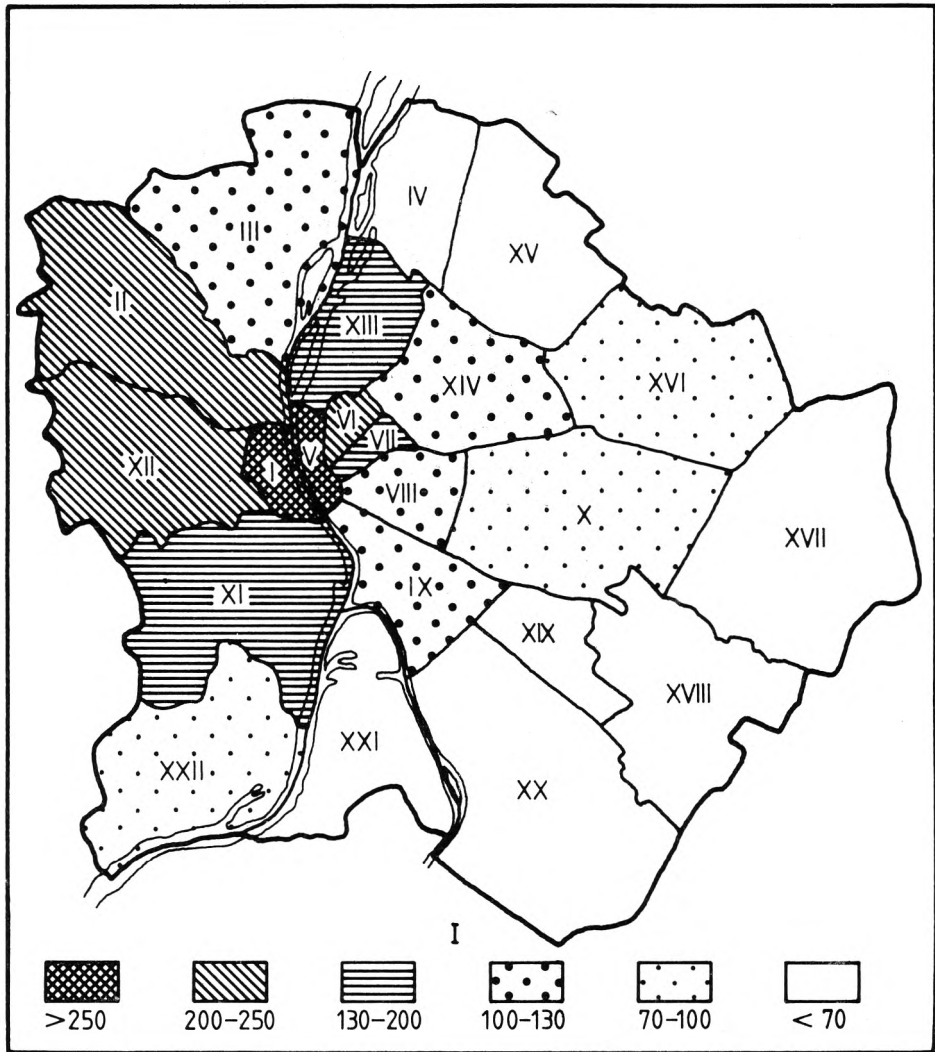
The recovery of the "City" is becoming more and more spectacular. This is the 5th district, where the institutions of the political power, the largest banks, the offices of the multinational companies, the big hotels and the smaller or bigger private businesses catering for the demand for luxury are concentrated. In the Pest part to this area, regions decreasing in intensity in the direction of the periphery are joined in the form of a ring, but in the peripheral districts which are densely populated, the density indicator of the business companies is already below the national average. In the Buda district, such marked zonality cannot be observed, in the mountainous region which is regarded as the residential district of the earlier and new leaders, of the group of new entrepreneurs and the leading professionals, several thousand businesses and joint ventures have been registered in the most modern branches of activity (foreign trade, marketing, tourism, information management). If we look for the winners of the change of the economic system, they can be found in the residential district of villas in Buda (*Figure 2*).

Figure 1
Regional differences in density of business companies, December, 1991



Key: I – number of companies/10,000 inhabitants.

Figure 2
The segregation of bussiness companies in Budapest



Key: I – the number of companies formed until December 31, 1991/10,000 inhabitants.

The counter-pole is represented in the country by the lastingly underdeveloped regions and the agrarian spaces. Thus, above all, the northern-eastern region of Hungary, Abaúj and Zemplén, Szatmár and Bereg, as well as the central region of the Great Hungarian Plain can be regarded as underdeveloped zones, but few new firms can be found also in the central part of the northwestern plain (on the boundaries of Vas and Győr-Moson-Sopron counties), in the southern part of Mezőföld (Fejér county) for the time being, which spaces are regarded as specific internal peripheries (RECHNITZER, J. 1992) and in Southern Baranya. In these spaces the provincial average does not reach even half of the number of the economic associations as compared to the population number.

This spatial structure can be traced back to several inter-related factors:

- it can be regarded as a direct antecedent that the boom of small businesses in 1982–87 was characterized by these very spatial peculiarities, the surviving businesses determined the present structure;

- the restructuring of the sector of large-scale enterprises – its privatization – was launched first in the marketable "urban" branches (in trade, industry);

- the businesses launched after 1989 – about ten thousand joint ventures among them – are attracted to the spaces by the purchasing power of the capital and the large cities, the more developed infrastructure, the material and intellectual capital intensity, the availability of real estate, the closeness of the center of power;

- agricultural has been practically left out of the organizational transformation up to now.

The stability of this spatial structure is confirmed by the information published about the foundation of companies in 1992 which also points out the greatest activity in the concentration regions indicated above. At the same time, it is true that the process is spreading in space, while for instance before 1987 at least one small business was located in one-third of the settlements, by the end of 1991 one company was established in more than half of the settlements (in 1,600 settlements). The spatial distribution is basically dominated by the two most dynamic forms of economic association: the limited liability company and the deposit partnership. The distribution of the companies limited by shares is related unambiguously to the capital of the country and the big cities, while only a few occasional transformations or new organizations bring about changes in the smaller settlements.

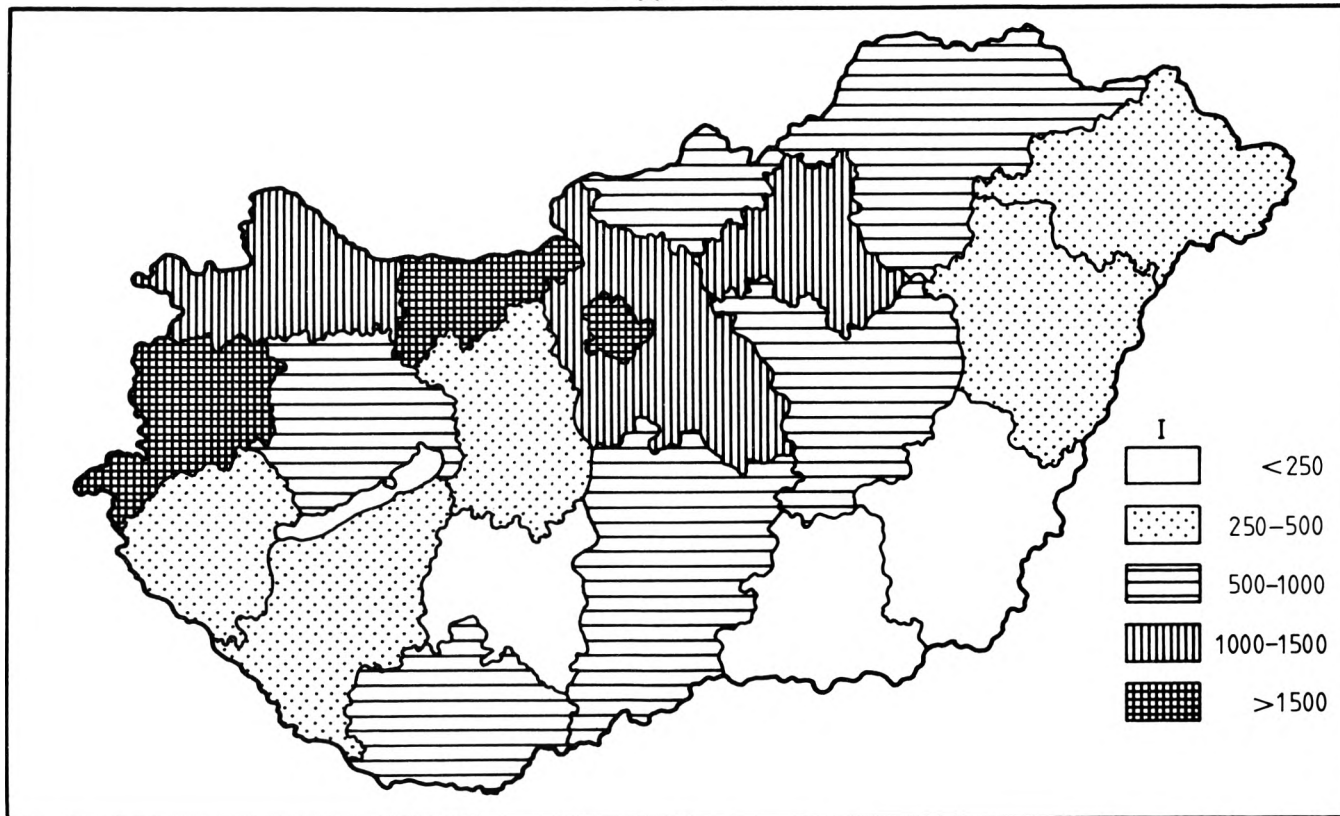
Today the new companies are the most important but by far not exclusive agents of the economy, in comparison to the whole of which they are located in great spatial concentration. The spatial distribution of the typically urban (small industry, retail trade) and rural (agricultural small production) forms of

the individual ventures, of the expanding infrastructural branches not functioning in the form of companies (e.g. education, health care, public administration) follows more closely the spatial distribution of the population, and in this way reduces the territorial differentiation mainly with respect to the population's income. But since the market impacts (forces of attraction and differentiating factors) have an increasingly wide influence, the same spaces are shown to be in a favorable or unfavorable situation in the sum total which can be outlined in the case of the business companies.

3. Regional characteristics of the foreign capital

In the breaking down of the sphere of state-owned enterprises, privatization and the formation of new ventures, an increasing role is played by the foreign capital. Because of the scarcity of domestic resources, the influx of foreign capital represents the most important resource in the modernization of the Hungarian economy. While at the end of 1989 the share of foreign capital in the primary capital of the limited liability companies and the companies limited by shares was only 30 billion Hungarian forints, by the end of 1990 it amounted to 90 billion and by the end of 1991 it rose above 200 billion forints (calculating with an exchange rate of 70 forints/1 US dollar, this is the actual import of 3 billion dollars, which value is constantly on the increase). As to the regional distribution of the foreign capital, we only have data according to the seats of the business ventures. These data indicate the dominance of the Budapest-seated businesses: approximately two-thirds of the above-mentioned 3 billion dollars was invested in companies limited by shares and limited liability companies which are seated in Budapest and Pest county. If we compare the size of the invested foreign capital with the total number of the employees, the highest values are shown by the counties of north-western parts of Hungary (Fig. 3) besides Budapest and its environs. In the case of the economy to be found in the seat of Vas county, the specific is the highest, 1,800 dollars capital investment per employee of the country. The specific capital investment is also high in the central and northern counties, but from this aspect the south-eastern zones of the country are at a disadvantage again (in the counties of Csongrád, Békés and Tolna the foreign capital is less than 250 dollars per employee). These data show unambiguously the advantages of the central and western parts of the country, their greater force of attraction which can be illustrated by the fact that each of the 3 multinational companies had selected their location for the establishment of motor car-assembling plants in these parts of Hungary: Opel in Szentgotthárd (Vas county), Ford in Székesfehérvár (Fejér county) and Suzuki in Esztergom (Komárom-Esztergom county). (*Figure 3*).

Figure 3
Investment of foreign capital



Key: I – foreign initial stock per employee (in USD) in the economy with county seats (December 31, 1991).

The sectoral structure of the foreign investment is determined by investors similar to the ones above (57% of the invested capital went into the industry) and investments of high value have appeared in the sector of the financial (banking, insurance) institutions as well. At the same time, with respect to their number the joint ventures in trading, services and tourist industry are predominant which were launched with the compulsorily prescribed minimal initial stock. This group of organizations is obviously related to the capital and the large cities of the country. Presumably the foreign capital will be distributed regionally in the future in a more decentralized way, if it has a chance to appear also in the agricultural sector as a result of organizational transformation and plays a role in the infrastructural branches, too (in the form of concessions, for example).

4. Regional relationship between the formation of companies and unemployment

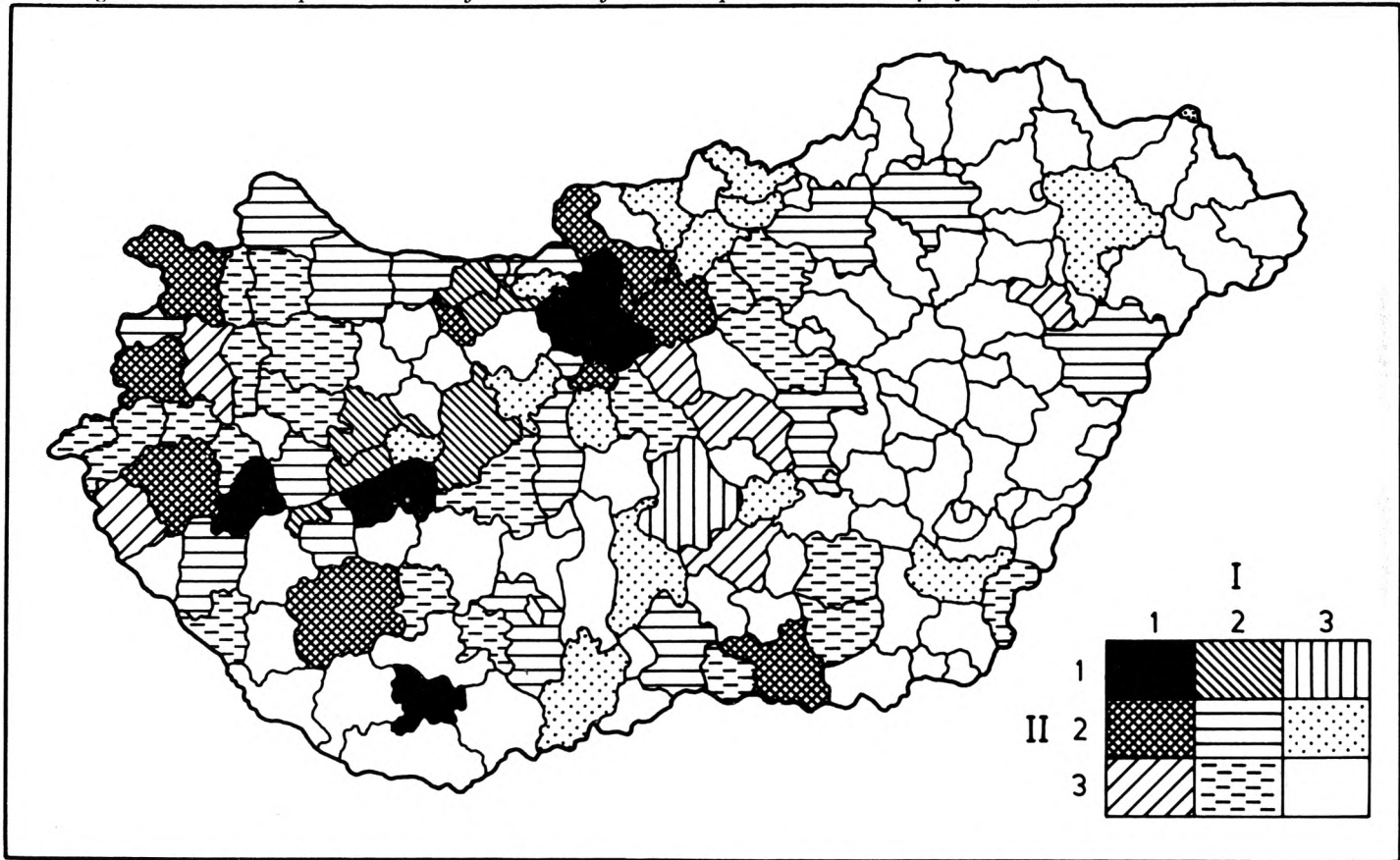
Perhaps the most critical consequence of the economic transformation is the appearance and growth of unemployment (in the middle of 1992, the number of the unemployed was above half a million, reaching a rate of 10%). The phenomenon of this crisis can be examined from several aspects, we chose to emphasize a peculiar regional aspect.

If we combine the information about the formation of companies as an indicator of economic renewal and unemployment as an indicator of the most serious crisis, the formerly mentioned regional features will be confirmed, although the complex relationship between the renewal and the crisis may not be fully explored in this way (*Figure 4*).

We divided the town districts into three groups according to the values of the unemployment rate in December of 1991 and the density of the formation of companies (number compared to 10,000 inhabitants) and then we described the possible combinations. In the case of the unemployment, the following value limits correspond to these categories: low rate (below 6%), average rate (between 6–10%), high rate (above 10%). The categories of the density of companies are the following: a lot of companies (above 80 per 10,000 inhabitants), average (40–80) and few (below 40).

In extensive parts of the country, the high unemployment rate is accompanied by a low activity in the formation of companies. This is characteristic of extensive zones in the eastern and northern parts (nearly the entire area of Borsod, Szabolcs, Hajdú, Szolnok and Békés counties, with the exception of the regions around the county seats). The situation is similar in Baranya, the greater part of Somogy and Central Transdanubia. The counter-

Figure 4
Regional relationship between the formation of new companies and unemployment (December, 1991)



Key: I – unemployment; 1 – low; 2 – average; 3 – high; II – Companies; 1 – a lot; 2 – average; 3 – few.

poles showing an opposite direction (a relatively low unemployment rate accompanied by the high density of the companies) are represented by the dynamic zones mentioned earlier. The western part of the country differs from the eastern in the sense that there the positive features of the economic transformation appear in the largest cities just like elsewhere, although the county seats are outstanding in this respect, too. In comparison, some districts find themselves in a peculiar situation in which the two indicators are combined in a way contradicting the usual logic. Districts in the neighborhood of some cities (e.g. Lenti, Sárvár in west) and the south-eastern districts of Pest county are characterized by a relatively low unemployment rate and the presence of few companies at the same time. In all likelihood, the point here is that the companies prefer the neighboring cities and create job opportunities there for the inhabitants of the wider region, too. Kecskemét (Bács-Kiskun county) is in a peculiar position with the high number of companies accompanied by a high unemployment rate. In this city, the tendency of differentiation dominating in the economic and social processes is manifested in a small space (different groups are affected by the renewal and the crisis).

5. Regional differences in the efficiency of company management

Although under the present conditions of the economic transformation the spatial concentration of the new organizations and the appearance of foreign capital are good indicators of the regional economic dynamism, or the lack of these clearly reflects the signs of crisis, it is extremely important to consider the efficiency and profitability of companies. This examination is especially justified by the fact that the mushrooming number of organizations and business ventures is accompanied by their great differentiation: besides the surviving, profitable firms there are a lot of losing businesses which either go bankrupt or cease to exist. But because of the great organizational instability, and in this respect because of the lack adequate regional statistical data, we cannot pass a substantiated judgment concerning the full range of the economic entities.

The regional differentiation of the economic efficiency can be pictured on the basis of the 1991 balance-sheet data of 44,990 economic entities on the county level. (In 1991, these organizations produced two-thirds of the national GDP). Once again, it is possible to give only a regional analysis according to the company seats which greatly differ from the actual scenes of the business in the case of big enterprises and companies limited by shares (the results of such national big enterprises like the MÁV (Hungarian State Railway) for instance, or of the large banks are taken into account in

Budapest, although their activities have nation-wide coverage). In the case of the co-operatives and the numerically predominant limited liability companies, however, there is a low proportion of locations lying far away from the company headquarters (below 10%).

We characterized the economic entities on the basis of the proportion of the results (profit or loss) as compared to the net sales. All over the country the index is extremely low and compared with the two previous years suggests declining profitability (its value was 5.2%, 4.4 and 1.1% a year between 1989 and 1991). From among the four company forms examined, the profitability of the companies limited by shares was the highest in each year during this three-year period (mostly owing to the high profitability of the financial institutions), they were followed by the limited liability companies, while the profitability of the co-operatives and enterprises falls behind that of the economic associations. On the whole, the co-operatives were losing in 1991, which largely reflects the critical situation of the agriculture. Today, the advantage of the new economic forms in profitability is due to the fact that from among the state-owned enterprises the ones in a favorable position were the first to be transformed into economic associations, and the formation of the new companies were concentrated in the most profitable spheres of activity (trade and services). An examination of the county data of the different profitability positions of the four forms of management forms will also show the advantage of the economic associations as compared to the enterprises and co-operatives (*Table 1*).

While the management of the companies was profitable in 11 from among the 20 regional units concerning the whole range of the organizations (the index had a positive value), the limited liability companies were profitable in 13 and the companies limited by shares in 10 counties. The majority of the enterprises can be found in the regions which are losing on the whole, and from among the co-operatives only the results of one county (Tolna) are positive. If we compare the forms of the economic organizations within the individual counties, once again the more favorable position of the business companies is confirmed, for in nine counties the profitability of the limited liability companies and in seven that of the companies limited by shares is the highest. The enterprises rank first in profitability in four counties, while the co-operatives in none. The profitability position of the economic organizations is, however, not schematic from the regional aspect, since in four counties the profitability index of the companies limited by shares and in two that of the limited liability companies is the lowest. The profitability advantage shown regionally altogether in favor of the economic associations makes it likely that in the regions where these organizations are concentrated

Table 1
Regional differences in the profitability (1991)

Counties, capital	Profit compared to 100 forints of net sales (Ft)				
	All companies	Enterprises	Co-operatives	Ltd's	Companies limited by share
Budapest	2.64	2.30	-3.62	2.58	3.44
Tolna	2.25	1.36	2.90	4.08	1.77
Zala	0.77	1.51	-4.34	2.50	3.85
Győr-Moson-Sopron	0.47	-0.10	-1.07	2.40	1.84
Komárom-Esztergom	0.36	0.94	-0.14	0.68	-0.06
Baranya	0.31	-0.15	-3.28	5.61	-1.47
Hajdú-Bihar	0.30	1.19	-2.49	1.55	-0.56
Csongrád	0.27	2.01	-1.93	-1.14	-0.90
Pest	0.12	-1.26	-3.17	2.70	3.06
Fejér	-0.41	0.15	-1.42	-0.24	0.85
Somogy	-0.61	0.01	-0.50	-2.11	0.06
Bács-Kiskun	-0.80	-3.88	-0.84	1.74	0.71
Jász-Nagykun-Szolnok	-0.94	-0.40	-4.82	3.01	-1.01
Szabolcs-Szatmár-Bereg	-1.42	-2.67	-1.61	3.16	-11.84
Veszprém	-1.67	-1.24	-5.55	-1.62	0.99
Vas	-2.09	-2.64	-0.06	-5.99	9.01
Heves	-2.11	-0.81	-3.80	-2.03	-5.72
Nógrád	-2.31	-3.92	-2.02	1.05	-8.37
Békés	-2.83	-2.64	-5.40	1.46	-2.92
Borsod-Abaúj-Zemplén	-3.38	-0.72	-3.97	-3.00	-13.49

Source: Balance statements of enterprises (Ministry of Finance).

(see the spatial structure outlined on the basis of the number and density of the economic associations in the previous chapter) the organizational transformation has made more progress than in the other regions, but the income-producing ability is also higher.

This is justified by the spatial structure outlined on the basis of the comparison of the large regions (KOVÁCS, Cs. 1992) and the counties. On the basis of the indicator of the profit as compared to the net sales – just as in the case of the concentration of the economic associations – altogether the central and western parts are at an advantage as compared to the eastern and particularly to the northern parts of the country.

The northern part of the country is in a particularly critical situation; in all the three counties belong to it each of types of enterprises were losing in 1991. This shows clearly that the sectoral depression (metallurgy, mining) and backwardness cannot be resolved merely by organizational transformation itself. In the case of Northern Hungary, we can witness that the critical

branches cannot recover even with the help of foreign capital, the relatively high volume of the foreign capital in certain regions is in vain, the given production structure is not viable even so.

If we continue to examine the characteristic features of the counties, it is also conspicuous that the counties with the largest provincial regional centers (with the exception of Borsod-Abaúj-Zemplén) all belong among the counties with positive profitability (Győr-Moson-Sopron, Baranya, Hajdú-Bihar, Csongrád), which is an immediate consequence of the fact that the new economic organizations are concentrated in the large cities. Thus, in the county-level profitability differences of the examined economic entities, all the essential dividing regional dimensions of Hungary are present: the impact of the duality of the capital and the provinces, the east-west relation and the hierarchy of the settlements.

The low profitability can be accounted for by the fact that in 1991, within the range of the examined firm, 40% were losing. At the same time, it is a curious fact that the differences between the individual regions are relatively insignificant as compared to the losing business ventures, and no peculiar regional structure can be revealed. This equalization mainly results in the loss-making of 40–50% of the largest group of the economic organizations, the limited liability companies. The number of losing companies is also increasing among the joint ventures (MESKÓ, A. 1991). In respect to the absolute numbers, there are, as a matter of course, also qualitative differences in this case, thus there are 9,000 profitable limited liability companies in Budapest, while in Tolna county, which disposes of the same proportion, only 300. The proportion of the losing firms is distributed between 39 and 49% in the counties, it is below 40% in Vas and Borsod-Abaúj-Zemplén counties, and above 45% in Csongrád, Zala and Győr-Moson-Sopron counties. These data point to similar processes which characterize the spread of unemployment: the crisis phenomena are extended all over the country and regional differentiation is strengthened by the indexes of renewal (number of new organizations, the presence of foreign capital), rather than along these.

If we examine the losing firms according to forms and branches, too, the co-operative sector of the agriculture proves to be in the most critical sector. This organizational group should be highlighted from the aspect of regional development because reality shows that the agricultural co-operatives and the related industrial, building and servicing auxiliary activities as well as the two-decade prosperity of household farming from the mid-sixties to the mid-eighties was one of the most important factors of income and of the approach of living conditions in the various regions and settlements.

While in 1989 from 1343 agricultural co-operatives only 225 were losing, in 1990 from 1367 organizations 377, in 1991 from 1418 agricultural

co-operatives already 870 were losing (that is, more than 60%). These proportions, which are mainly connected with the decline of the domestic and external effective demand for the agricultural products, the sudden rise in the price inflation of the costs of production and the radical reduction of state support indicate a critical situation in the agrarian regions and the villages. Namely, the settling of ownership in agriculture which culminated in 1992 – returning the agricultural land to private hands – cannot change the facts by itself. According to recent surveys, the private owners contemplate individual farming only on some 20% of the co-operative land, the overwhelming majority wants to cultivate the land to be owned by them only within the framework of the co-operatives chiefly, and mainly in the regions where the endowments of production and the economic situation are the least favorable. In addition to the collapse of the agrarian sphere, the rural spaces are afflicted by the crisis of the urban big industry, which cuts down the rural commuters above all who have very low qualifications.

6. Increasing regional differentiation

The processes analyzed in this paper unambiguously prove that the transition to the market economy is accompanied by differentiation on all essential spatial levels: in relation to the capital and the provinces, between the eastern and western parts of the country (see *table 2*), as well as in relation to the bigger towns and villages. The tendency of differentiation can be noticed not so much in the signs of crisis, as in the elements of renewal and economic modernization. Since the regional system of the political institutions suitable for influencing these processes has not been established yet, and the resources which could be directed to the crisis zones are not available in an efficient order of magnitude, there are not any factors which seem likely to change the tendency of differentiation in the short term. At present, the spatial economic proportions and movements make it likely that the present problem-regions (backward agrarian regions, heavy industrial depression zones, the peripheral regions in the eastern part of the country) may expect the change of their situation for the better from an economic boom extending to the whole of the country. For economic progress to be observed also in these spaces, a permanent growth rate of 5–6% would be required. Only at such growth rate is it possible that, on the basis of their endowments and economic structural advantages having been described above, the spaces being capable of developing faster than the average can have a perceptible attraction and irradiating influence to stimulate internal growth in the regions which are still lagging behind.

Table 2

Indicators of regional economic situation (1991/92)

Counties, regions ⁴	Density of business companies (b.comp.)	Share of joint ventures (%) ²	Taxable income per capita (th.Ft)	Unemp- loyment- rate (%)	"Economic Health" ¹
	Dec. 1991	1991	1991	Jul. 1992	
Budapest (C)	120.4	26.84	125.13	4.9	3.14572
Győr-Moson-Sopron (W)	59.33	24.19	81.30	7.4	0.98477
Vas (W)	37.29	24.27	81.73	7.8	0.64739
Komárom-Esztergom (W)	67.57	16.43	89.16	12.6	0.48983
Pest (C)	56.78	16.79	81.68	8.6	0.47537
Zala (W)	59.14	14.64	79.23	8.1	0.37797
Veszprém (W)	49.04	18.06	84.88	10.3	0.37768
Fejér (W)	57.20	12.50	91.18	11.2	0.27317
Somogy (W)	53.61	14.66	71.34	8.7	0.08403
Csongrád (E)	41.06	16.63	79.36	10.3	0.06444
Baranya (W)	52.67	16.35	77.01	11.8	0.061.5
Bács-Kiskun (E)	52.63	17.08	67.22	14.1	-0.27807
Tolna (W)	39.97	13.37	77.81	12.5	-0.31623
Hajdú-Bihar (E)	41.68	10.80	71.39	11.5	-0.49599
Heves (N)	38.31 ³	11.62	70.01	13.6	-0.68228
Jász-Nagykun-Szolnok (E)	37.00	10.12	73.97	15.1	-0.80256
Nógrád (N)	50.06	10.38	71.88	17.7	-0.82933
Békés (E)	33.80	10.68	68.91	13.7	-0.82948
Borsod-Abaúj-Zemplén (N)	43.47	8.26	72.34	18.2	-1.06438
Szabolcs-Szatmár-Bereg (E)	31.68	7.60	57.73	19.5	-1.68312
Hungary total	61.20	19.70	84.90	10.1	0.0

¹ Result of factor analysis of four indicators (factor scores, summarising indicator of economic situation and perspectives).

² Within firms with double book-keeping

³ Estimated

⁴ Regions: C = Central, W = West (Transdanubia), E = East (Great Plain), N = North

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ENTREPRENEURSHIP AND REGIONAL POLICY IN HUNGARY

HORVÁTH, Gyula

1. The regional dimensions of the crisis

The effects of the economic and social crisis in Hungary can be detected in all parts of the country; they force a modification and revaluation of the developmental fundamentals. The consequences of the crisis manifest themselves in different ways in different structures. In regions with weak structures and in monocultural settlements, new types of regional phenomena – like unemployment and impoverishment – are the results of economic stagnation or decline. Depressive processes – showing social and economic decay – have emerged owing to developmental problems in certain sectors and management deficiencies in industrial regions traditionally considered to be developed. The worsening of the economic conditions within the agricultural sphere has led to the development of stagnant agricultural regions. The income-producing ability of the productive sectors has gradually decreased, occupational forms like these have lost their former potential to develop the region and the settlement. Lacking resources and a consistent conception of economic policy, developmental projects for the underdeveloped areas are of little effect.

The growth of problematic regions of the country has come to a turning-point. The course of regional and settlement development has arrived at a dead-end. The answer to this crisis situation is to establish a modern economy to transform the economic structure. In the last decades, it was typical for the policy of regional development in Hungary to try to restrain the inequalities to an extreme extent. The level above which inequalities were considered to be undesirable, excessive, unjustified, politically inequitable, etc. was determined differently from time to time and a gradual moderation and suppression of the inequalities was aimed for. The regional cross-section or level where the regional policy thinking and activity were conscious of the inequalities and tried to moderate them was similarly changing. There was a constant striving for the reduction of the differences between the various

counties, once embedded in the system of large territories (regions), at other times the base of comparison was made up by the diverse development of capital – country, village – town, and industrial and agricultural regions.

Apart from partial transitory results, none of these efforts achieved overall success and, with the decline of the socio-economic environment and the development of the crisis, enforcing a structural change in the economy and the reorganization of the political system, the inequalities increased to a great extent and a territorial polarization could be observed.

There were four basic processes – each one creating regional crisis in its own right – intertwined and having their effects at the same time:

a) The problem of the historical expansion of disadvantaged regions, the ever increasing backwardness of rural areas and finally their falling behind, and the inability to develop in rural and agricultural regions without centers;

b) The transformation of the role and market conditions of certain productive sectors especially in those cases when these sectors played an important role in the economic structure of a region and there was a need for radical changes in the regional economic structure; a good example of that are regions with the dominance of heavy industry, the crisis of classically depressed regions;

c) The rapid collapse of the economic systems of Eastern Europe and the new economic orientation to the world along with the extension of market relations have plunged the whole Hungarian economy, and within that the various regions, in different ways into a critical state;

d) The change of the organizational and functional structure of the economy as a result of the change in the social-economic system, which, on the one hand, is determined by the change in the ownership (privatization), on the other hand, by the reorganization of the economic organizational system, the selective disintegration of the formerly dominant large industrial system, the establishment of small- and medium-sized companies at a rapid pace, and the spreading of enterprises.

The most obvious outward form of regional crisis is *unemployment*, with the necessary contraction of the state sector as its determining cause. As a result of the regional division of large state industry and the regional unevenness in the progress of the economic structure, sharp social tensions caused by unemployment can be observed mainly in the eastern parts of the country (the Great Hungarian Plain having low-level technologies and industrialized through factory resettlements from Budapest in the sixties) and in the north-eastern centers of heavy and extractive industry (Miskolc and surroundings). In November 1991, the national unemployment rate came to 7.3% (351,000 unemployed), in the eastern regions of the country it was 10–14%, in the western areas it was 4–7%, and in Budapest it amounted to

2.4% (Figure 1). (Unemployment has spread quickly: in January 1990, there were 23,000; in January 1991, 100,000; and in June 1991, there were 186,000 registered unemployed in Hungary. The pace of the increase was seventeen times higher at the end of 1991 than at the beginning of 1990).

The general crisis of the state sector meant a basic alteration of the state labor market in Hungary. As a result of the decrease in the production and the number of workers in industry (and the spreading of small- and medium-sized companies to be dealt with later on), there have been three regional types to be outlined.

In the central regions (Budapest and the counties around the capital), state industry has contracted and the private economy shows strong development, there is deep organizational slump in the eastern parts of the Great Hungarian Plain and in north-eastern Hungary, while other regions of the country find themselves in a transitory situation (which of the previous two groups they are going to join is not clear yet).

In Eastern and Central Europe – owing to historical misfortune – the demand for three basic changes has accumulated in the past one and a half decades (ENYEDI, Gy. 1990). Firstly: with the completion of industrialization, there is, a transition into the post-industrial phase, which took place in the sixties in Western Europe, at the time of the prosperity of world-economy. Secondly: there are changing structures and technologies, which the economy proved to be absolutely incapable of. Thirdly: the socio-political change in the system in the former socialist socio-economic model repressed the development of the forces of production.

The economic reorganization is made difficult, however, by the fact that all these significant changes have to be carried out simultaneously. The macro-structural change of the economy has to take place at the same time as the technical-technological and organizational modernization of the industry. All these are to be realized in a period of time when:

a) the growth rate of the economy has decreased, there is a continuous decline in the economy,

b) the effectiveness is extremely low, there is a wasting of economic resources,

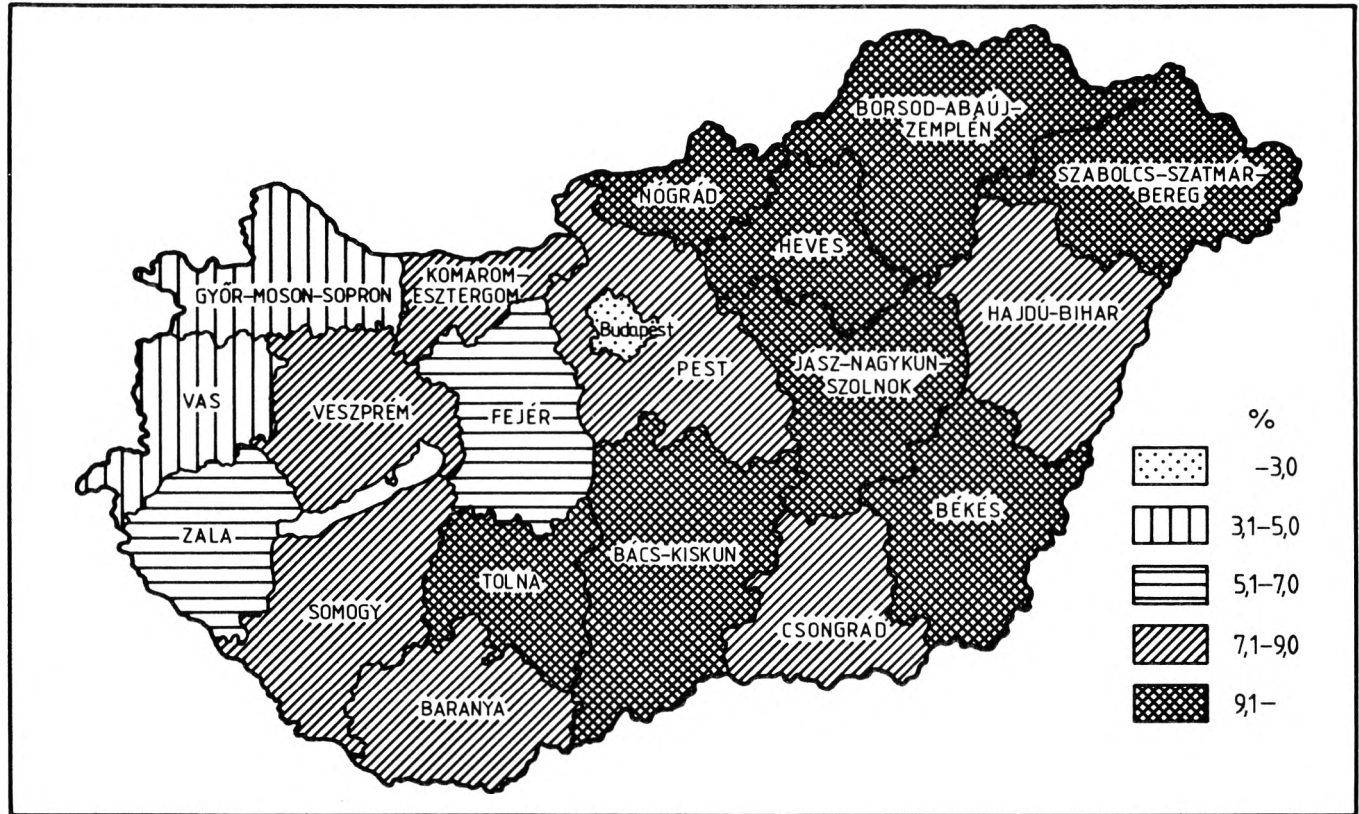
c) a big part of the population has become poor, the social polarization exceeds the degree typical for market economies,

d) there is open inflation,

e) unemployment and the external and internal debt have increased,

f) regional disparities are growing rapidly.

Figure 1
 Unemployment rates in Hungarian counties, 1991



Although there have been several concepts formulated on the modernization of the Hungarian economy and society, and they show essential differences as to their political or economic-philosophical affiliation, they still have something in common, namely that they all assign an honored role to the small- and medium sized companies in the process of the structural change of economy and the creation of the property relations in Hungary.

In the countries of Eastern and Central Europe fundamentals necessary to the economic development of small and medium-sized companies – and to the framing the market conditions – differ from each other to a great extent. The course of development is different from those of Western European countries because of peculiarities of the historical background, while Hungary's special position within the East European bloc is due to the heterogeneous effects to the reforms started more than twenty years ago. The experiences of the semi-market solutions facilitate the transition of the market economy in Hungary; however, the shortage of capital, the accumulated tasks of modernization, and flexible political conditions show various alternatives for development. The fast development of the small- and medium-sized company sector will probably lead to economic, regional, and political decentralization.

2. The development of the economic organizational system

In the history of the modern Hungarian economy over the past one hundred years, a particular dichotomy of the big industry and the small-scale production can be observed. At the end of the 19th century, the manufacturing industry started from a weak basis and then developed rapidly. This process led to the success of heavy engineering. While in 1880 only 21% of all industrial workers worked in big industry, at the turn of the century this figure was 40%, and in the 1910s more than 50% of the 563,000 industrial employees were involved in it. A high level of concentration was typical for the manufacturing industry. More than one third of all employees were to be found in 4% of all the factories. More than half of the workers in big industry were employed in factories with 21–100 and above 1,000 workers. The category of the medium-sized company was missing. Besides the organic development of industry, there was a great need for industry to produce consumer goods.

In the new situation after World War I – the territory of Hungary was reduced by two thirds, its population was decreased by 60% – the level of concentration reached at the beginning of the century was basically not changed. The number of medium-sized factories, missing at the beginning of

the century, had increased in this period through the establishment of several textile, paper, and other kinds of factories. Forty-five per cent of industrial workers were employed in small-industry and they produced 28% of industrial output. Seventy per cent of small industry production came from the clothing, food, and building industries and the catering trade.

The preparation for World War II – the war-boom – extended not only to the manufacturing industry but to small industry as well. The war production meant economic strengthening for small industry, too; its share in the industrial production, however, decreased in 1940 to 25%.

In 1945, the level of production of the manufacturing industry was about one fifth of that before the war; in 1946, it was little more than one third; and in 1948, it had attained again the level of in last year, before war. In the very same year, the fundamental transformation of the Hungarian organizational system of the economy was started: ownership competence. This process went on for two years and sealed the further development of the Hungarian economy, for four decades Hungary was separated from the modern European trend.

The establishment of the socialist sector was started with the *Act XXV of 1948*, according to which all industrial, transport, mining and smelting companies, and power stations with more than 100 workers that were privately owned, during the time preceding the existence of the act went over to state ownership. Six hundred companies were involved in the nationalization, 83.5% of all workers of the manufacturing industry became employed in the state sector. All heavy industry companies were nationalized, but only 25% of the workers in the textile industry (13% of them in the leather industry), and 55% of the employees of the food industry stayed within private companies. At the end of 1949, industrial companies having more than 10 workers went over to state ownership and some industrial branches were fully nationalized. Two thirds of the foreign trade, the whole branch of wholesale trade, and the retail trade for its main part went over to state ownership.

One of the most significant changes of the economic organizational system was the increase in the concentration of the production. In 1950, there were 1,427 industrial companies and in 1965 only 839. The average staff number increased from 336 to 1,183 in 1950. Less than 30% of all workers were employed in industrial companies with less than 500 workers in 1950, while in 1965 only 10%. At the same time, large companies with more than 5,000 workers employed 35% of all workers compared to 17% formerly. This kind of concentration – coupled with regional concentration (even at the end of the sixties, 44% of all industrial workers were employed in the agglomeration of Budapest) – was for the most part only the result of

organizational changes and the steps of centralization, and not of real concentrational processes.

The economic reform introduced in 1968, the moderation of the central planning system, and the growing importance of company independence in Hungary put an end to the growth of factory and company size, and it even started the process of decreasing size. Although in the mid-seventies – due to the pressure of the Stalinist groups in the state party – there was additional growth in the size of firms in the manufacturing industry, at the end of the seventies with the strengthening of the Hungarian economic reform, a slow and gradual process of the decrease in the proportions of companies and factories occurred. Through government measurements, following the demands for realism, some monopolistic organizational blocks were abandoned. Decentralization first took place in the food processing industry, then in some other branches of industry, too. The new perspective gained more and more importance in the modernization of organizational system as they gradually tried to do away with the conservative traditions of the past and align the system to a market economy. The decentralization measurements of the government, however, reflected the viewpoints of the company proportions in the late seventies and early eighties. Economic autonomy and the development of entrepreneurial ability were neglected issues.

It was those years when the so called *second economy*, a working activity not socially organized, had started to spread in the deeper streams of the economy of the open society. In this process, the Hungarian agrarian model played the leading role.

The Hungarian network of agricultural co-operatives was basically different from the East European kolkhoz-type system in that – and this being so the Hungarian system found itself in the cross-fire of ideological-political attacks – there was a particular division of labor between the big agricultural companies and the household farming and auxiliary economies (activity carried out on a piece of land in private ownership, or rented). At the beginning of the eighties, 70% of the vegetable production (horticulture), 51% of the fruit production, 21% of the cattle population, 52% of the pig population, and 40% of the poultry population came from household farming and auxiliary economies. More than the half of small-scale producers were integrated in agricultural co-operatives and two thirds of the commodity production of the small-scale producers got to the consumers and reprocessors in an organized form (ZOLTÁN, Z. 1985).

The demand-increasing role of the second economy, along with the rise in living standards, also became obvious in other sectors of the economy (services, trade, construction industry): at the end of the seventies, only 30% of the repair services were "socialist" organizations. The judgement of the

second economy was to be characterized by the sense of reality and the comparison with international tendencies.

3. Enterprises immediately prior to the change of the political system

There were certain traditions of enterprising – economic activity performed out of the framework of socialist organizations – at least in "buds" that were developed by creating suitable legal rules.

Setting up a legal framework for the collective forms of small ventures, the political leadership of that time was trying to create an escape (unsuccessfully) that would release the expected social tensions. In this way, they intended to provide opportunities for almost every strata with political importance to find some compensation for the unavoidable decrease in the living standard through having secondary employment in some kind of enterprise form. There was neither time nor energy to establish the ideological basis for these major changes and to reveal their long term consequences.

The package of decrees, announced in the autumn of 1981, performed the legal regulation of the forms of collective enterprising listed below. They were free to operate from the 1st of January, 1982.

– *Economic working community*. They could be formed as specialized entities of civil partnership, on the basis of registration with the Court of Registration, followed by a council-licensing procedure. There had to be at least two and not more than thirty members of the venture. They had social insurance and worked as full- or part-time workers. The co-operative could give work to employees, too, but their number was not to be more than 50% of all members. The co-operative paid 3% company tax.

– *Enterprise-sponsored working community*. In addition to the regulations for the workteam associations, they were subject to the joint and several liability of companies.

– *Small co-operatives*. They were formed on a voluntary basis, willingly, as ventures organized "from below" with at least 10 and a maximum of 100 members. They had some advantages as to the regulation (for example exempt from the wage-regulation) when compared to traditional co-operatives.

– *Specialized group of a co-operative for industrial activities and services*. It could be formed on the basis of a resolution of the general assembly of the "mother-co-operative". It had to have at least five members, but there was no limited maximum number of associates. The main purpose of creating this kind of venture was to provide opportunities for the

agricultural co-operatives with disadvantageous conditions. The industrial production had a higher profit-rate this way.

The companies were free to create subsidiaries and small companies besides the working-pools in order to unbind the overcentralized structure. They never became general, however, in spite of granted favors in wage-control, taxation, and registration because of the weak motivation of large companies.

In short, we can say that these forms of collective enterprising caused important changes considering the Stalinist kind of economies of the East European countries. The process of decreasing the economic role of the state, however, had no real success, not even in Hungary, which was due to the following:

a) The conservative left-wing political-ideological pressure against the small-ventures remained effective as late as 1989: they were still afflicted by many administrative restrictions, and got only a small amount of real support from the economic policy.

b) The privileges of state-ownership were not decreased significantly and state ownership had a paralyzing influence on the non-state-owned companies, too. The new period of the enterprise-boom in Hungary started in 1988 when the demolition of the constitutional and legal obstacles to the private sector began. The *Company Act of 1988* opened the way to Hungarian civil progress. This Act:

- helped smaller ventures to become middle-sized plants because the maximum number of employees (in the private sector) was raised from 30 to 500,

- provided an opportunity for private individuals and legal entities to form joint-ventures in certain enterprise forms,

- initiated the new institutions of the limited liability company and the company limited by shares, in which the responsibility of the owner was restricted to the invested property,

- legalized the institution of silent partners, in this way, joining a company with capital only had become legal.

The *Act on Foreign Investments of 1988* facilitated foreign investments in Hungary. The former concession system was terminated, 100 per cent foreign ownership became possible and tax preferences were offered to joint-ventures.

The *Act on Transformation*, which came into operation in the middle of 1989 made it possible for certain small ventures to choose a more up-to-date company form and solved the problem of the expansion and transformation of small ventures (e.g. working communities could be transformed to limited companies flexibly, fast, free of charge, and with no liquidation, without

paying taxes or dues). The *Individual Entrepreneur Act of 1990* terminated most restrictions concerning small-industry and private trade, and used the principle of the activity-importance: the rules of the official and qualification licensing were connected with the activity and not the enterprise form. The *Act on Issuing Securities* and the *Act on Exchange*, both in 1990, terminated the minimum value of the shares and legalized the operation of private individuals at the Stock Exchange Market in Budapest.

Although the advantageous legal changes were not accompanied by an adequate decrease in state tax-payments, a new wave of company formation emerged in Hungary. The number of companies almost doubled between 1989–1990 (*Table 1*). The most dynamic increase took place in the field of limited companies, their number quadrupled.

Table 1
Number of economic organizations, 1985–1990

Organizations	Number of economic organizations in						Growth rate, 1990	
	1985	1986	1987	1988	1989	1990	1985 = 100%	1989 = 100%
Enterprises	7,916	8,578	9,591	10,811	15,235	29,470	372.3	193.6
From this:				year				
– co-operatives	4,848	6,880	7,076	7,132	141.1	114.9
– state enterprises	1,910	1,940	1,955	1,986	2,001	2,363	123.7	118.1
– ltd.	50	59	103	451	4,485	18,317	366-time	408.4
– company limited by shares	116	307	646	–	210.4			
Unlimited and deposit partnerships	11,849	20,262	22,674	34,082	44,062	65,400	366.4	148.4
Individual entrepreneurs	126,175	149,544	201,348	290,811	320,619	393,450	311.8	122.1
Total	151,940	178,384	233,619	335,770	379,916	488,320	321.4	128.5

Source: Gazdaságstatisztikai Évkönyv (Yearbook of Economic Statistics) 1990. pp. 32–33.

It was characteristic of the "great establishing fever" that 42% of the companies functioning in 1990 were formed in 1989–90, 32.1% of them were 2–5 years old, and only 25.9% of them were older than 5 years.

In this sudden increase of new ventures, it was the small organizations which played the most significant role. They kept a simplified double-entry book-keeping system, and their yearly income mounted from 25 to 250 million Ft-s (300,000 – 3 million USD). At the end of 1990, more than

three-quarters of all ventures were small companies. In the material respect, a small company had 23 employees on average, a capital of 9 million Ft-s (120,000 USD), and a profit of 28 million Ft-s (380,000 USD). The increase of the importance of the small companies is also indicated by the fact that at the end of 1990, 45% of industrial companies had less than 20 employees (this number was 55% in the construction industry, 77% in internal trade, and 88% in foreign trade). Two thirds of the industrial companies had less than 50 employees.

The Hungarian economy had this kind of organizational structure as described above when it stepped on the path of changing the political and economic system. The liberalization of the economy, the evolution of the economic background (advantageous to the private sector), the rearranging of the organizational structure (in accordance with the market-economy) the strengthening of private companies, and the disintegration of the state-owned sector were just about to begin. At this stage of transforming the system, quick economic growth is not to be expected because the development of the new ventures is balanced by the loss in the national economy. The leading branches of the economy are depreciated almost to zero because of the change to the market economy and the pressure to integrate into the western type of economic system. Some of the large-scale industry has lost its values, the large-scale forming system has been shocked, and the neglected information and communication infrastructure is an obstacle to the spreading of new enterprises.

4. The regional location and diffusion of new enterprises

As already mentioned in the first chapter, there are two new factors determining the territorial structure of the Hungarian economy: company size and form of ownership. The former factors, such as sectoral-structure, export-ability, organizational dependence, and the state of technology still have their influence. The capital – provincial dualism appeared in the mid-eighties: 50% of the enterprises operated in the capital (but only 19.4% of the national population and 21% of the industrial employees are to be found in Budapest).

The strong territorial concentration lessened a little in the late eighties, but even in 1990 almost half of the most dynamic companies were located in Budapest and one tenth of them were to be found in the agglomeration of the capital (Pest county). Only the number of the individual enterprises was in proportion to the population structure because many agricultural ventures were settled in the country (*Table 2*).

Table 2

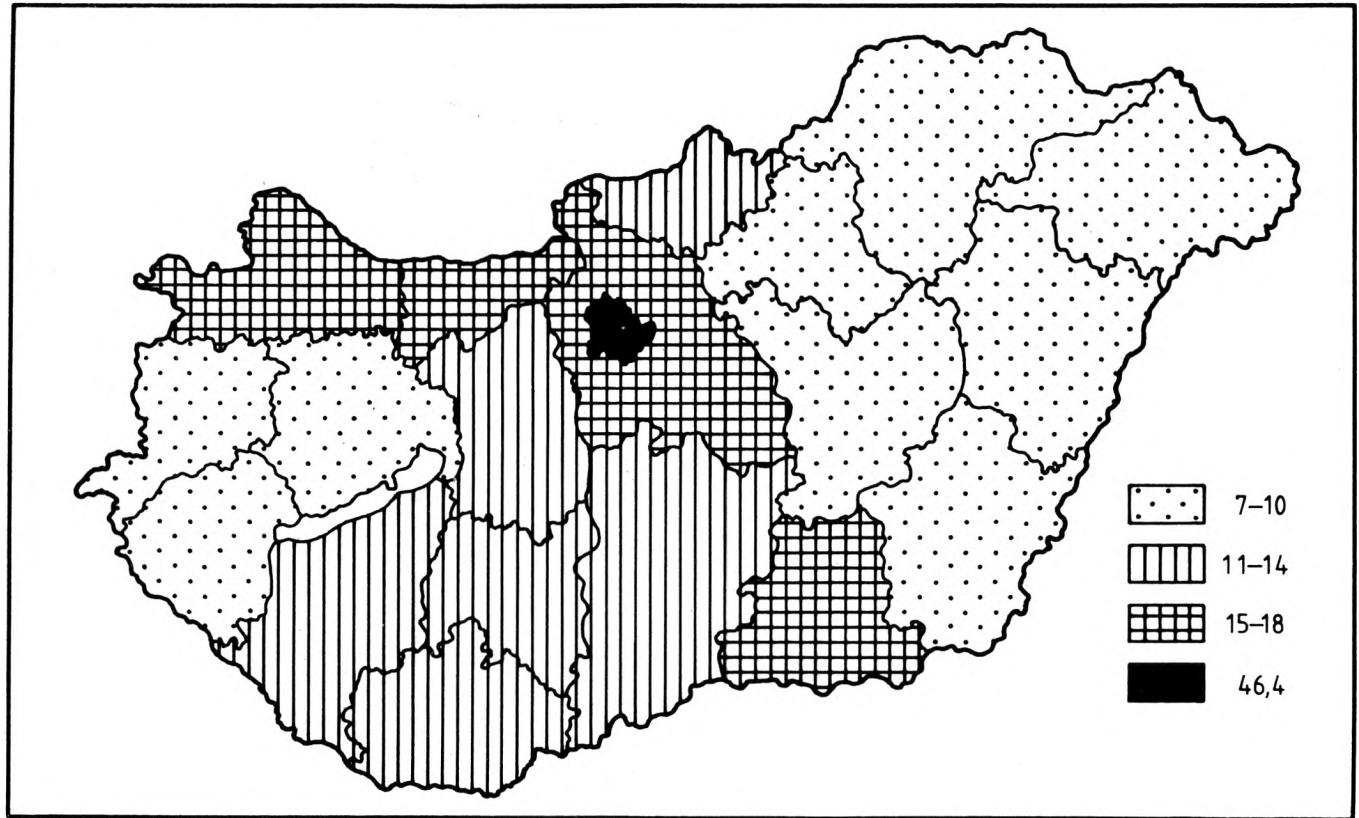
*Share of the economic organizations by counties,
1990*

County	State enterprises and co-operatives	Economic associations	Unlimited and deposit partnerships	Individual entrepreneurs	Total
Budapest	32.4	48.2	32.6	22.7	24.1
Baranya	4.7	2.7	3.2	5.2	4.9
Bács-Kiskun	4.4	3.7	4.7	5.4	5.3
Békés	3.1	2.1	2.4	3.9	3.7
Borsod-Abaúj-Zemplén	5.3	3.8	5.8	5.2	5.3
Csongrád	3.6	3.2	3.7	5.2	5.0
Fejér	3.2	2.7	3.2	4.6	4.5
Győr-Moson-Sopron	4.5	3.2	3.8	4.5	4.4
Hajdú-Bihar	3.3	2.6	3.6	4.6	4.5
Heves	2.4	1.9	2.8	2.9	3.0
Jász-Nagykun-Szolnok	2.7	1.7	2.5	3.7	3.4
Komárom-Esztergom	2.3	2.9	2.8	3.2	3.3
Nógrád	2.0	1.3	2.1	1.9	1.9
Pest	6.7	8.8	8.5	10.3	10.0
Somogy	3.6	2.3	3.0	6.7	6.3
Szabolcs-Szatmár-Bereg	3.6	2.4	4.4	4.4	4.5
Tolna	2.1	1.4	2.6	0.9	1.0
Vas	3.6	1.5	1.8	0.8	0.9
Veszprém	3.7	2.1	3.4	2.1	2.2
Zala	2.8	1.5	3.1	1.8	1.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Gazdaságstatisztikai Évkönyv (Yearbook of Economic Statistics). 1990. pp. 32–35.

Examining the company density factor we can establish that Budapest and its agglomeration has similar importance. Regarding the number of economic associations per 10,000 inhabitants, the country average is 18.7, in the agglomeration of the capital city it is 18, and in Budapest it is 46.4 (*Figure 2*). The dominance of Budapest comes from different factors. The city has always pioneered types of social innovation in the country. Forty per cent of state industry has its headquarters in the capital city, and state industrial enterprises have attracted the workers' business associations. The city offers the largest and most affluent consumer market in the country. The city almost monopolized the economic and political information which was necessary for getting into business. Finally, partly because of the size of the city, the control of the political leadership over its economy has been less direct than in any other settlement.

Figure 2
Number of economic associations per 10,000 inhabitants by counties, 1990



Simultaneously, the spreading of private companies has begun, imitating the classical model of expansive diffusion, and the number of enterprises has increased in the western counties significantly. According to certain data, however, the main directions of the expansion are the Vienna–Győr–Budapest and the (Trieste)-Lake Balaton–Budapest axes. The central and the southern part of the country is less affected by this change. In the north-eastern peripheral regions of Hungary, the company-density is rather low. (The density index in the most underdeveloped counties is: 8.4. in Szabolcs-Szatmár-Bereg, 7.7 in Jász-Nagykun-Szolnok, and 9.7 in Borsod-Abaúj-Zemplén, which used to be the center of the former heavy industry).

The counties situated west of the Danube river find themselves in an advantageous geo-political situation. They joined the European regional co-operation in the mid-eighties (Alps–Adria Working Community, Co-operation of Regions along the Danube). The numerous small and medium-sized towns of this region make it an excellent target for foreign joint-ventures, while the eastern part of Hungary has been afflicted by the collapse of the COMECON market.

The present regional rearranging of the economy draws attention to several problems, mostly overshadowed nowadays. Above all, the market-economy should be developed on the regional level, too. The capital, manpower, goods, and information market exist only in the capital city, the market institutions are underdeveloped in the country (even in the six large cities of Hungary). Consequently, the country needs a regional policy which is based on the drawing force of the diversified market and not on the unified model of extensive growth. This policy should help the organization of regional and local money-markets and use the various implements of "enterprise intensification". The present tendencies suggest that in some western counties certain regional progress is to start in the near future. This means a western-type development based on small and medium-sized companies and changing the technology and the production structure, aiming at the third sector of the economy. This process, however, requires an economic policy advantageous for entrepreneurs, a decentralized power structure, and developmental conceptions initiated regionally.

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NEW POSSIBILITIES AND THE CONSTRAINTS OF REGIONAL SCIENCE

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These days, a propitious phenomenon in the public life of Hungarian science is the re-discovery of regional science. After the significant popularity and spread throughout the sixties, an apparent decline seems to have ensued in the first half of the following decade.

Obviously, just like the recent recovery, the former was also comprised of numerous components. This paper is not intended to take into account all the reasons, yet one of the most important reasons is that in Hungary regional science has never been really institutionalized, the necessary institutions of higher education and post-graduate training have never been established. Centre for Regional Studies of the Hungarian Academy of Sciences is the only professional base even today which may really support the recovery sought.

In outlining the new possibilities, the approach taken by us is to look back upon the main moments of the regional science first, and after gaining an insight into the domestic causes and effects, the key elements of a possible future will be predicted.

1. The content of regional science

In examining the peculiarities which determine the content, or rather character, of the regional science, we can see that there has been a great danger implied in a number of circumstances and active components during the past few decades, yet even today the same characteristics apply which were formulated earlier with regard to the content of regional science, the character of its methods, principles and objectives. The spatial relations in the lives and activities of individuals and smaller or larger groups of people, the issues related to the family, housing and communication as well as the reasons for the selection of particular locations or domiciles by the enterprises, institutions and individuals, its factors, the criteria and rules of the distribution of the economy are the primary tasks of regional science.

It is also an important fact that today – even more than a few decades ago – the environment should be taken into consideration in its overall complexity, i.e. as an interaction between the natural and constructed environments. A close relationship with decision-making and the related disciplines is a fundamental requirement from the aspect of nearly all the social sciences. At the same time, it is true even today that a rich arsenal of cognitive, analytical-explorative and prognosticating instruments is required in research activities of regional science.

Yet, it is clear that amid the large-scale changes sweeping transformation processes occurred also within this sphere which seem to have a direct impact on the character and activity of the regional science, therefore, it is not needless to reformulate or update the approach and methods in regional science.

As a result of the changes having occurred on the Earth and in Europe in particular, the political and economic power lines have been reorganized, the confrontation of the regimes seems to have been pushed into the background, objectives and aspirations of a different charge have come to the front as compared to the former ones. For us, naturally changes of European relationships form a determining framework, and nowadays these seem to differ completely from those of the previous years. But even more important than this is the fact that the political, socio-economic, etc. processes begun in the late eighties do not match any formerly projected trends which were outlined either on the basis of existing knowledge and experience, or paths which were deemed to be modern and new and were formed at the beginning and in the upswing of transformations. In professional scientific activities related to everyday events, the conventional ways of thinking fail as a rule.

In December of 1991, a symposium was organized on the topic of the regional-settlement processes which took place in the countries of the Eastern-Central European space. A fundamental statement of general validity which was supported by concrete data provided by most of the contributors was that everything turns out in a different way from what is assumed.

To make the picture complete, we have to add that in the days of scientific development, we can witness yet another change. In former decades, the situation was like this: more and more new, increasingly specialized sciences, disciplines were grouped around the concrete individual ranges of knowledge. Some of them became accepted for good, such as biology, or remote sensation. On the other hand, from the late seventies the demand for synthesizing scientific approaches and disciplines which amalgamate various partial bits of knowledge into unity was perceptible in several respects. The same can be observed also in our special field, whether we examine the geographical or the economic sciences. Regional science was

an interdisciplinary science by its very nature and, hopefully, this feature will be only further strengthened in our days. This does not mean to say that at close inspection there are not any important debates concerning the nature of regional science. Is it technical? Or economic? Or sociological? We can be sure that each element out of these is present significantly in the overall content of our discipline, as well as in the individual works written on it.

It is neither possible, nor perhaps necessary to measure slowly and leisurely the proportion of the components in relation to each other. Quite frequently it is impossible to ascertain whether the matters we have to deal with are basic materials, additives or merely spices in the meal that we call regional science. While we can defend the nature of our discipline only by emphasizing its interdisciplinary character and our commitment to it, at the same time one often has the feeling that it would be good to get a clearer picture of it after all. This may be assisted, for example, by taking a look at the relationship of the sections operating in the individual countries and the institutions of higher education, etc. in the recent publication of RSA. Thus the distribution of the 16 European sections (which means, of course, a much higher number of countries, because the Northern section includes five, the Soviet section quite a few countries) in 1992 shows that eight of them operate in relationship to some eight economic universities or institutes, while the others are related to departments, institutes of geography, technical universities or colleges. This also gives some point of orientation.

2. Roots and point of departure

This paper does not claim to undertake the task of giving a comprehensive review of the "antecedents" of regional science, but it, cannot fail to look back upon the past either. If one happens to select such a borderland, he is exposed to making an imperfect selection, whereas someone else might have picked from the amazingly rich material in a completely different way.

With all that considered, I think the statement can be accepted that on the basis of the works of a spatial science the modern antecedents start with Johann Heinrich von Thünen (1826). It is less well-known, however, that the economists of the 18–19th centuries, quite outstanding personalities, who were condemned by the "regionalists" on account of their lack of spatial approach, occasionally paid (some) attention at least to the changing conditions: Adam Smith, for example, was keenly interested in the causes of the territorial differences in the value of land, David Ricardo in differences of the production factors, Marx in the differential land rent. In spite of all this,

typically enough, the seminal economic works did not attribute real significance to the territorial differences.

The second half of the 19th century passed in the spirit of the predominance of geographical approaches, to which the works of Launhardt (1885) and Marshall (1890) were exceptions. The first decades of the 20th century can also be characterized by works showing an increasing interest in the practical issues of production and trade, but basically oriented towards an economic geographical approach (SEMPLE, E. C. 1911, HUNTINGTON, E. 1915, BAKER, O. E. 1921). At the same time, works oriented towards spatial economics were also published, for example within the topic of the location of industries (WEBER, A. 1909), or the location theory (HOOVER, E. M. 1937).

From the 1930s, the number of seminal publications on the spatial relation of the economy increased. Just to mention a few by way of examples: Porde 1934, Christaller 1936, Dennison 1939, Lösch 1940.

The golden age of regional economics started in the forties, giving such a rich yield from which it is definitely possible only to give a sample. Without the claim of giving a bibliographical survey, it is necessary to mention a few fundamental works by merely indicating the above mentioned process. The existing primacy of the Americans remained associated with the topic, – let us add, on the basis of the significant foundations laid down by the Germans – but the spread of the idea can be already pointed out in the 1950s. Thus, in addition to works by Dunn (1954), Isard (1956), Greenhut (1956) and the work of Lösch published in English in the middle of the decade, volumes by Ponsard (1955), Boustedt and Rantz (1957) appeared, too. It is not an exaggeration to say that the foundations of regional science were laid down in the fifties, which determined the direction of approach and activity of this discipline for one and a half decades.

3. Changes of the recent past as reflected in the opinions of eye-witnesses

From the point of view of getting familiar with the past of regional science, obtaining an understanding of its current problems and giving the outlines of a possible future, it seems to be illuminating to have a look at the summaries of the discussions which took place in Karlsruhe in 1974. At this time, Rolf Funck (1975) was of the opinion that in the fifties and early sixties there had existed a classical regional science. In those days, the instruments of the description and analysis of regional, chiefly economic activities and the setting up of such regional and interregional models, which were usually based on the analysis of the general equilibrium, were in the foreground. The

classical regional science bore in itself the sweet scent of l'art pour l'art, relying mainly on the works of the great predecessors, such as Lösch, Christaller, Predohl, Weber and Thünen.

In the 60s and early 70s, the majority of the publications consisted of decision-making models connected with the micro- and macro-economic development. The linear and non-linear programming techniques, as well as the static and dynamic models, became permanently applied instruments in the determination of the optimal level of the regional variables, such as income, employment and investment. These methods of regional operational research had two deficiencies. The reason for the first deficiency is that the world has never been linear, the second one is that the question of what should be maximized or minimized under restrictive conditions was regarded as if the conditions had been already defined. In this way, the approaches of operational research practically reduced the regional science to a technical science devoid of vital knowledge. The interdisciplinary co-operation was rather a wishful dream than a fact.

According to Funck, a "*new regional science*" started to appear. This already deals with the objective system of the regional political and planning tools, with values, weights, analyzing the political structures which create the objectively existing systems and decision-making processes. The new regional science is interested in the expectable facts of the present and the future, paying attention to the processes of planning and implementation, which form the realities of the present. In this sense, it can be regarded as the theory of the regional planning as well as of the regional economy and social policy.

Funck supports the truth of the process of development and transformation indicated in the foregoing by taking a close look at the content of the summer seminars held in Karlsruhe. He concludes that in 1970, out of 124 classes, 84 dealt with mathematical methods, the theory of regional analysis, spatial equilibrium models, etc. In the course of the second seminar, held in 1972, two-thirds of the lectures placed an emphasis on the theory of regional planning, the planning of infrastructure, the planning problems of underdeveloped regions etc. On the occasion of the third summer seminar, organized in Karlsruhe, the requirements of the approach of the new regional science were clearly formulated in respect of both the theoretical and problem-oriented relations.

If we take a look at the opinion of the European champion of regional science, the views of the then fairly young Peter Nijkamp, which he formed at about the same period, this is what he says: considering the past decades of regional science, we can see that a very fast development took place with respect to the useful theories, methods and analytical tools. But if we take into account the changes of reality in the same period, what it boils down to

is that the problems of the real world increased much more rapidly than our knowledge about reality. The gap between the two thoughts shows a growing tendency, for this reason there is no doubt that some change is necessary. Nijkamp hopes to find it in the application of such special models which are suitable for grasping the given problems. Naturally, he hurries to add that the models do not provide only and above all abstract projections of the reality, but also such practical planning procedures which are suitable for grasping its problems. He presumes that the regional scientist should deal with theoretical issues and relations as well as devote his time to an in-depth study of the solution of practical problems.

Concerning both content and approach, it is very instructive how Isard glanced back on the past of regional science and spoke about its future in 1979 when the heated debates were still going on, but the formation of the European wing was already underway.

The RSA parted from the American Economic Society on its first congress, which was held in Detroit in 1954. Among the participants some notables of today were present, for example: Beckmann, Dunn, Harris, Hoover, Isard, Miernyk, Rodwin, Vietorisz, Vining. Under the leadership of Isard, the RSA was formed at a time when, in his words, "The economists – Samuelson, Schumpeter and Hicks, to mention just a few – were living in their wonderland without a dimension".

In the methodology of the 1950s, the regional input-output techniques appeared, mainly in order to give a clear analysis of the significance and interactions of the various branches for the planning going on in the utilization of land on the basis of subjective evaluations. With this method open and consistent, effect-analyses became possible, too. Then, the problems of the planning of delivery followed in which an increasing demand presented itself for the prediction of the traffic consequences (going to work, shopping, goods transportation) related to the establishment of the new industrial branches. This is how the interest of the regionalists was turned towards the gravity models. "Ours was the first social science to introduce the gravity and spatial interactive models. The learned theoretical economists who used to mock these models, already seriously adopt them today" (ISARD, W. 1979).

As a response to the ever larger mass of interconnections, the interregional linear programming models were formed which gained popularity in the 1960s and 1970s.

A basic difference became perceptible that while in the USA regional science was preoccupied with the issues of the large city regions, in Europe the problems of other regions were (also) important. The first RSA Congress was held in the Hague in 1961, and its topic also reflected the above

mentioned difference, namely only one section dealt with the problems of the city regions. And now let us have a look at the issues on the agenda. These included: regional science and planning, regional analysis and the geographical concept of region, theoretical issues of the development of economic regions, the large territorial complexes of the Soviet Union, distribution of the national wealth in Yugoslavia, etc.

The next great challenge facing regional science was brought about by the environmental problems. In the late 1970s Isard was professionally absorbed in distance and territory and an interpretation of time, by means of which the application of time and space in models would be possible. Another important issue for him at the time was the research of the interaction between the processes of cognition and reality. With respect to the future of regional science, he thought it could be replaced by the so-called peace science. The Master – who showed a great concern about the sky-rocketing military expenditures and the chances of peace and, in this respect, about the development of a new social science – was mistaken in this, yet fortunately regional science is making progress, adjusting itself to the new spirit and issues of the age.

It is ironic that the same Lloyd Rodwin who played such a great role in launching the development of regional science by tempting Isard to the Harvard, several decades later should fear that regional science would become duller and drier, over-modelled and too theoretical with the really original thoughts and ideas disappearing or at least partly getting lost from it. Therefore Rodwin, in his capacity as Chairman of the RSA, made a speech, or rather formulated the main issues which form the core of the regional scientific theory: the location of the population and the economic activities, transport and migration flows, the utilization systems of the urban and regional resources and land, the economic foundations of settlements, spatial problems of employment and the relations of environmental and energy systems (1987).

4. The present of regional science in Hungary

If we try to collect all the circumstances and factors which greatly influence regional scientific activity in Hungary, then the best way is to approach them according to three groups:

1. The first category includes the *objective circumstances* and processes which directly affect the choice of topic, methods, etc. The processes going on in the environment of the Earth and some threatening moments of the transformation highlight issues (e.g. the well-known greenhouse effect, the

rise in temperature, the Earth turning into a desert, etc.) which also have a direct impact upon the regional scientific activity, yet all that Hungary can do – similar to the numerous other countries of the Earth – is to try to assert the requirements of the maintainable development in as many respects as possible. The latter have direct connections with the regional development processes and trends.

Another group is made up of the circumstances which create completely new relationships and systems of connections all over Europe as a result of the political and social transformation, as a consequence of which the relationships between the countries and regimes and the cultural influences are essentially modified. It seems that in Eastern-Central Europe which the establishment of numerous national states is brought about, on the other hand, hopefully, the dynamic unfolding of interregional co-operation will be strengthened, too.

The rules of regional development should be included among the objective factors not as a new but fundamental package. The recognition that regional development takes place unevenly in space, showing certain long time intervals as compared to the socio-economic and political changes, should be taken as a basis in the selection of topics in regional science by all means. The phenomena of the urbanization process and the restructuring of the system of settlements regularly manifested are also related to this.

If regional science does not acknowledge these processes in the required details, this may cost its activities, resulting in the deterioration of efficiency.

2. The other group of active components is created by the actual characteristics of the social, political and economic processes of the country and their consequences.

Firstly, the vigorous and rapid strengthening of the differences between the western and eastern, northern and southern parts of the country, as well as between Budapest and the other parts of the country have to be pointed out. The decreasing number of the population, the rapid material differentiation of the society and large-scale pauperization may not be ignored. The spread of the crisis areas and their increasingly grave problems belong among the significant negative elements. The restructuring of the economy, the lasting reduction of the large-scale industry, the employment and production disruptions of the agriculture foreseeably dragging on for several years and the negative effects of all these embrace rather extensive areas of the country.

From among the numerous features of the economic restructuring, the growth of the volume of services and the increasingly complex structure can be regarded as advantageous. The peculiar spatial distribution of the

inflowing foreign capital, which basically means association with the regions that have relatively favorable endowments, may also become a source of spatial tensions, just like the fact that a lot of sectors of the economy can cope with the competition of the dynamic and virulent European firms and ventures only with great difficulty; a great many Hungarian firms fall victim to this, which may lead to significant consequences. The troubles connected with the condition of the environment are very serious in the individual spaces, waste management in general is still unsolved with a number of tensions burdening the environment of the settlements.

Among the significant elements of great influence, the worsening crises and uncertainties of the housing construction and management, the lagging behind of the conditions in health care and education by international standards, the gaps in the social net and the great social tensions resulting from it should be mentioned. It can be expected that the migration of the highly qualified professionals to the West, the brain drain directed outward will have a negative impact in the long run and result in this connection in the extremely low standard of the higher education and the research network conditions.

From the aspect of the regional problems, we should mention that the elements of the developmental phenomena and of the process of becoming wealthier are concentrated in a relatively small area of the country. The restructuring of the system of settlements, agglomeration and the strengthening of inter-settlement co-operation are going on, at the same time new problems arise as a result of segregation within the individual settlements and groups of settlements.

On the other hand, there are large-scale projects offering prospects and important elements of regional development which may turn out to be favorable: the EXPO'96, the Southern Motorway. There are also enormous benefits deriving from the dynamic development of the borderland areas.

From the aspect of governing, the most important group of problems may be traced back to the realization of the autonomy of the local governments in connection with the introduction of the system of self-government, which is a contradictory series of phenomena, since it bears the possibilities of the unfolding of local energies, as well as of exaggerated isolation, or even seclusion. The uncertainties and division of the central management of the regional relations, as well as the unsatisfactory solution in middle management and the lack of concepts concerning landscapes and spaces also belong to this sphere of thought.

3. The condition of the scientific-professional background related to this field of research greatly influences activities in the field of regional science,

too. We have to set out from the fact that regional science itself is in a rather ambiguous position: although the Regional Scientific Committee of the Hungarian Academy of Sciences is still functioning and the Hungarian division of the RSA as well as the Centre for Regional Studies of the Hungarian Academy of Sciences as significant workshops and a few dozen specialists declare themselves to be regionalists in their activities, we cannot speak about a well-established educational and professional background, a wide base, or mature approaches. Nowadays, however, there are signs that in Hungary the investigation of all the questions which are on the agenda with urgency has been started with vigor in regional science. We venture to say that for this start foundations feeding on various scientific sources are available.

The science of settlements still seems to be struggling to find its terrain. The discipline of town construction and planning will hopefully get rid of the predominance of representing and examining the formal-decorative elements. There are promising signs in this respect, but a further shift towards a modern approach is required, so that it could overcome the still existing conservative approach.

The relations with the geographical sciences are strong and good. The environmental orientation strengthening within natural geography is beneficial, just like the unfolding and enrichment of the geography of the settlements and society, of political geography, and economic geography in the narrow sense becoming more and more sensitive to the practical issues.

I would be happy to mention that in the research activities of the economists the analysis and general acceptance of the spatial dimension have been enhanced, but this would not correspond to the facts and the existing situation. At present, although luckily a new economic thought is gaining ground, it is not free of the fault of neglecting the spatial relations.

The picture is somewhat more favorable with respect to the sociological research, since the sociological exploring-analytical work carried on in the field of settlement sociology, or of the local governments is becoming more and more marked, which offers chances for co-operation in the near future and is suitable for promoting an understanding of the social processes by all means.

The situation and prospects of the research institutes of the academy are in a serious crisis, in the near future the conditions of survival are at stake. In my opinion the situation is somewhat more favorable in view of the chances for the departments and specialists of the related disciplines in the institutes of higher education, albeit there is no reason for unconditional optimism there either.

From the aspect of the present and the near future of regional science, it is encouraging and relevant that the decision-making sphere of the local and central governments gives a great number of assignments to the different scientific-professional workshops, and it is only hoped that thereby they express their wish to rely on the professional opinion of the representatives of our special field to the same extent.

5. And the immediate future...

After the survey of the circumstances and active components of development, the tasks of the immediate future can be summarized in four points:

1. First of all, we should formulate an 'ars poetica' for the Hungarian regional science, and on this basis a breakthrough reaching the general public which could widely highlight this discipline would be necessary. The tasks of regional science should be formulated in the 'ars poetica' as outlined below:

- the examination of the social and economic phenomena and processes, as well as of the spatial relations and the exploration of the rules and regularities observed in them;

- on the basis of an interdisciplinary approach, close co-operation with economics, geography, sociology and the science of settlements;

- the exploration and adoption of methods matching the analytical activities which provide possibilities for getting familiar with the highest possible number of spatial relations (emphasis should be placed on expediency and obtaining the greatest amount of knowledge), avoiding at the same time making use of attractive, complicated and impressive mathematical methods and computer apparatuses and replace them by the ones which are the most efficient under the given circumstances: this may be the numerical definition of simple interrelationships, say, on the basis of qualitative criteria, as well as the use of visual processing and naturally the setting up and use of various models;

- in the course of the development of the content and concept of the activity, besides the priority of the scientific requirement, attention should be paid to the demands of decision-making and exercising influence, as well as to the fact that it is good if science can serve society in this way, too.

2. As for the concept and approach, a requirement of utmost importance and far-reaching consequences is the combination of the natural-environmental, economic, geographical, sociological, political-scientific,

architectural-technical aspects, their combined analysis and a deeper understanding of their interrelations.

3. To give a concrete definition of the subject matters to be examined is, of course, extremely difficult, mainly from the aspect what depth these proposals and concept should aim at. On the other hand, the interest and importance of the tasks is changing with time, with new ones coming to the foreground. Therefore, the problems to be presumably highlighted can be defined only by way of indication.

But above all, the greatest efforts and intellectual capacity should be focused on the exploration of the processes and certain phenomena of the regions, and on getting to know and describing them from all possible aspects. More tangible than this is the task of the eminent regional science, which deals with the content of distance, access and locations, or the criteria of the various activities.

The formulation of the eminent Warntz extremely aptly expresses the importance and explanation of speciality: "Space is a tyrant whose power is strengthened by distance. It struggles against us, often conquering our proposals, if we ignore its influence in our planning. The geographers and regional scientists can be found among the least loyal persons. Their attack on space is deliberate, well-planned and continual. They want to have a perfect understanding of space in order to direct its influence according to their objectives as much as possible, and to achieve this, they spend long hours investigating space and organizing conferences: we are aware that the rules of space are not random, but rather systematic and regular. After getting a good understanding of space, the benefits will flow back and irradiate upon humanity." (WARNTZ, W. 1967). Thomas Macaulay must have understood this attitude, for he wrote, "From among all discoveries (inventions) – with the exception of the alphabet and printing – the most was done for human civilization by the ones which serve the bridging of distance" (WARNTZ, W. 1967). Warntz frequently emphasized that in regional science the physical surface of land should be examined as temporal or cost surface. These views and requirements, I think, receive particular importance nowadays, when numerous segments of the spatial order of the society and the economy and its earlier regular processes are under transformation. Consequently, there will be a change in the criteria according to which locations of certain activities are chosen.

It will become particularly timely and important to do research on the interrelations which influence the development of spatial behavior, identities, as well as inequalities and differentiation. In comparison with the former

period, much more attention should be paid to the factors which affect spatial spread and the rules characterizing it.

Within the range of practical issues, special attention should be devoted to the integration of large regions and spaces in general and, on the other hand, to the European integration processes.

Naturally, issues of real significance are those of influence are undergoing regulating and planning the regional processes and phenomena. The instruments of influencing undergo substantial changes these days, too, and it is natural that we should take into account all the processes which have only an indirect impact upon the content and instruments of planning. Thus, today the planning of the spatial phenomena can be done successfully only if we combine all the integrated socio-economic, environmental and technological factors in our approach. There is no doubt that the present practice of planning – for the very reason of an ever stronger manifestation of the social needs – should be aimed at creating harmony within the social complexity, at the same time its content is influenced by the technical possibilities and instruments which are already available today, such as the elaboration and confrontation of the alternatives.

Another important requirement difficult to fulfill is the assertion of the strategic, or if you like, long-term approach with regard to the regional processes, while concentration on the problems of the immediate future is also required. In this connection we should mention the necessity of the development of such procedures which are also suitable for the wide-range exploration of the possible consequences implied by the individual alternatives in decision-making, or at least for their successful outlining.

Naturally, it should be pointed out that the issues related to the content and organization of training and retraining are permanently on the agenda of regional science. In this way, it will be able to promote adjustment to the changing conditions most efficiently. The emphasis in training may be shifted, yet the main point is to place the regional approach at the center of all the training programs, whether the dissemination of knowledge in the training takes place within the framework of economics, geography or technology.

4. Finally, in discussing the methods – even if only for the sake of formal completeness – we should, above all, emphasize the principle of expediency and maximal information yield. Of course, it is impossible to make an inventory of the methods to be adopted, yet in regional science it is advisable to use procedures capable of scanning and exploring a wide range of connections as deeply as possible. It is also important that in the case of the shortage of quantitative information, qualitative information is just as useful, often even beneficial for setting up models, so-called "hard

methods”, with their help. From the point of view of foresight, the procedures of scenario and portfolio should be highlighted, which are perceptibly widely accepted.

Recently there is another trouble associated with the issues of methodology and connected with problems of the information base which is becoming more and more serious. In the existing official statistical system, a lot of elements which are essential from the aspect of the regional relations are not observed, therefore the researchers are compelled to collect data on their own, which is difficult because it absorbs significant material potential and financial resources, sometimes perhaps unnecessarily. Therefore, an elementary – scientific and practical – interest is related to the formation of such spatial information systems which are capable of grasping a wide range of phenomena that really matter.

6. Good advice to ourselves

On the basis of what has been said above, now we can formulate the tasks and behaviors with the help of which the renewal and stabilization of regional science may be advanced:

- the interdisciplinary character of regional science, i.e. the acceptance and inclusion of various approaches, should be preserved by all means;
- if we are responsive to the changes of life, then practice and planning are tantamount to maintaining one of the inherent peculiarities of this science;
- the openness and willingness of regional science to co-operate should be preserved in both scientific research and practical directions;
- bases of postgraduate training and retraining should be established and developed further in the shortest possible time, the institutionalization of regional science is justified;
- several signs indicate that it would be worthwhile to urge the establishment of a regional scientific interpretation (a school) of the Eastern-Central European space, since these days (and presumably for some time to come) the spatial issues and relations to be solved are rather peculiar in this region.

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