

REGIONAL PROCESSES AND SPATIAL STRUCTURES IN HUNGARY

IN THE 1990'S



HUNGARIAN ACADEMY OF SCIENCES
CENTRE FOR REGIONAL STUDIES

REGIONAL
PROCESSES
and
SPATIAL
STRUCTURES
in
HUNGARY
in
the
1990's

Edited by
ZOLTÁN HAJDÚ



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PREFACE

In Central and Eastern Europe, the 1990s are the years of the great socio-economic and political transitions and rearrangements. Both the relationships within the region and the external connections of the region as a whole have fundamentally changed. Within the region, Hungary is a rare example for an “organically transforming” country. During the time of the systemic change, no violent, revolutionary events took place. However, the ten years that have passed since the systemic change are not free from conflicts.

The aim of the book is to give an overview of the versatile regional processes of the Hungarian economic, social and political transition. We could not examine the rearrangement processes of each sector, but we think that the regional problems of the most essential activities were given a proper attention.

The introduction of the neighbourhood environment (East Central Europe) is also part of the book, in order to demonstrate the versatility of the former small socialist states (as opposed to the popular belief of many, which did not differentiate among the countries of the socialist block), as well as the induced effects of that versatility that have emerged in the transition period. The regional consequences of the systemic change to a large extent derive from the differences of the previous structures.

The political geographical situation of Hungary basically changed in the transition period. In addition to the new world political and European environment, a significant part of the Hungarian state borders are borders to new neighbour countries now, after the disintegration of the former socialist federations. The new political geographical environment received a basically new content after the NATO accession of Hungary.

The inner political and administrative rearrangements partly served the breaking down of the old structures and partly the construction of new ones. During the creation of the institutional system of regional development, the preparation for the EU accession was already a major objective.

The individual sectors (agriculture, transportation, communication, tourism, banking system and financial services, tertiary sector) found themselves in new operational conditions during the construction of the market economy. The territorial processes of the individual sectors showed specific features characteristic of the given sector, also, the preparation for the accession to the Union has already started in these sectors, including the building out of new structures, part-financed from EU funds.

It is this period when the Hungarian economy actually returns to the circulation of the world economy. Foreign capital has acquired significant shares from the Hungarian economy, both by privatisation and by green field investments. In cer-

tain sectors of the Hungarian economy, a dominance of foreign capital has occurred.

The spatial structure of the Hungarian economy has significantly changed during the transition period. The recent ten years enable us to designate the territorial winners and relative losers in the transition. The regional tensions have not decreased in Hungary, on the contrary, they have become rather sharp at the level of the individual regions.

The transition period, in the field of environmental protection, has only led so far to the assessment of the problematic heritage and the awareness of the dangers, instead of offering solutions for the problems accumulated during the decades. One of the most problematic elements in the Hungarian EU accession is the environmental situation of the country, and the demand for the improvement of the historically created situation.

The book does not reveal all the territorial relevances of the transition, it is not an absolute inventory or a pre-accession structural register. However, it helps both the understanding of the territorial processes of the recent ten years and the integration of Hungary into the European Union.

REGIONAL EFFECTS OF THE TRANSITION IN EAST CENTRAL EUROPE

GYULA HORVÁTH

1 The apparent results of centralised development policy

In European market economies, the economic regions of each country were shaped by economic processes, development cycle tendencies and the effects of market booms. The regions emerged, stabilised or changed economic position by level of development according to the intensity of state intervention and their reactive ability. On the other hand, in Eastern Europe it was ideological, political and power aspects that determined the development of the spatial structure of a country. The development policy that comes from a centrally controlled state structure and is exclusively directed from above is not a particularity of the era succeeding the Communist take-over. In the countries of Eastern Europe gaining their independence in the 1920s, practically the only way UN states could be organised was by means of a central authority. The national governments of the 1920s had to spend a considerable part of their resources on the organisation of the uniform public administration and the creation of regional connections in order to integrate the different parts of their countries that used to belong to different European empires and had different paths of development. Only one fifth of the region had a modern economic structure and urban network capable of organising activities that were compatible with the European level: Bohemia and the regions in Western Poland. The eastern regions used to be suppliers and market for the industrial goods of the Russian Empire and the Austro-Hungarian Monarchy. The states in the Balkan peninsula had hardly managed to break free from the feudal Ottoman state. The diverse economic philosophies existing in each region ranged from a state-capitalist policy supporting industrial development to the self-preservation of small feudal peasant farms.

Regional inequalities appeared in their most extreme form in the two most populated countries of the region, Poland and Romania, but the differences were significant elsewhere, too. Silesia was integrated into the German territorial division of labour. The density of the railway network in Eastern Prussia was ten times higher than in the Eastern Polish regions that joined the Russian economic sphere. In Romania, two-thirds of industrial employees worked in Transylvania. The level

of urbanisation in this part of the country was two or three times higher than in Moldavia or Wallachia. In newly established Czechoslovakia, per capita gross national product (GNP) in the Czech part was more than twice as much as the GNP in Slovakia. In Yugoslavia, industrial output in Slovenia (which was organised along Austrian and Italian patterns) was more than ten times higher than the industrial production of Bosnia–Herzegovina and Montenegro.

The general socio-economic changes had an unfavourable impact on Austria and Hungary. Their development policies had to face many difficulties. The industrial capacity of both countries served the demand of a population of 40 million in the Monarchy, and in the utilisation of the resources a certain degree of integration was achieved. Regional disparities in the Monarchy were very significant. The north-eastern parts produced only one-third of the economic capacity of the core areas of the Empire (*Table 1*). Because of the breakdown of the extended internal market, a half or two-thirds of existing industrial capacity were deprived of former markets and suppliers of raw materials.

Table 1

Regional breakdown of GNP in the Austro-Hungarian Monarchy, 1913

Regions	Per capita GNP, crown	As a percentage of the Monarchy
Austrian regions	790	180.0
Bohemia and Moravia	630	143.8
Hungarian regions	327	74.6
Dalmatia and Slovenia	300	68.4
Bukovina	300	68.4
Galicia	250	57.0
Total	438	100.0

Source: Kausel, A.–Butschek, F.–Nemeth, N. 1965. p. 31.

Czech industry was able to some extent to provide a market for itself with the joining of Slovakia, but the large scale industry in Budapest (vehicle manufacturing, food processing) was only able to operate to 20–30% of its former capacity. The new borders drawn with the Peace Treaty of Trianon tore natural urban attraction zones apart and annihilated the results of the organic development of the Hungarian urban network. The still over-concentrated Hungarian regional structure was born at this time. In contrast to the Hungarian situation, the centres of the former historical provinces in the other states of Eastern Europe remained the targets of new development policies. Between the two world wars not one city was given too much economic primacy. The main junctions of territorial development were, apart from capital cities, Lublin, Poznań, Wrocław, Katowice and Krakow in Po-

land, Iași, Timișoara and Cluj-Napoca in Romania, Brno and Bratislava in Czechoslovakia, and Ljubljana, Zagreb and Sarajevo in Yugoslavia. On the other hand, the two-thirds contribution of the capital city to industrial production did not decrease in Hungary.

The only difference between the basic development objectives of the Russian Empire and its successor state, and the efforts of the nation states in Eastern Europe is that the former subordinated the economic exploitation of the newly conquered territories for the stability of the central authority. The natural resources of Siberia and the underdeveloped republics annexed by the Soviet Union served the expansive development and the strengthening of the defence potential in the core areas of the country. The new regional socio-political programmes of the Communist era were no more than an implementation of the objectives of the super-power through an increase in the number of workers. The Soviet planned economy, which was overrated by Western European states, established the organisational framework for the sectoral control in order to implement the above-mentioned objectives. The origins of the opposition of sectoral and territorial interests go back to the Soviet Union of the 1930s. Later on, after the transformation of the central state, the regional policy in practically all European countries was tied through sectoral control.

In the late 1940s, this periphery of Europe was predominantly rural. The rural population reached 80% in Bulgaria and Yugoslavia, 70% in Poland and Romania, it was 60% in Hungary and 50% in Czechoslovakia. In this rural region, urbanisation did not follow the model of developing countries but showed the characteristic features of a former period of urban development in Western Europe. Basically, the population of the middle towns with 50,000–100,000 inhabitants grew most rapidly. The network of large cities hardly changed compared to the situation before World War II. This urbanisation period, however, showed special features coming from the character of state power, too (*Enyedi, Gy.* 1992). First, the gap between towns and villages further deepened, infrastructure was neglected for ideological considerations, and the state introduced a new redistribution policy, which all had an unfavourable impact on villages (and also, to some extent, on towns). Second, the low level of technical development, together with the inflexibility of the organisations, which later triggered the disintegration of the state socialist system, re-created a lag in urbanisation for this region. Third, the nationalisation of the administration of the settlements could not fully defeat local societies. Especially in the 1980s, urban societies tried to follow Western European patterns in terms of urban development and in various ways in the different countries. Due to this fact, the division between the two parts of Europe in the definition of the objectives of urbanisation was less expressed from the 1970s onwards, although the differences between the methods and forms of organisations were still considerable.

2 The change in economic system: limits and dilemmas

The democratic governments of the post-Communist countries started the reconstruction of a market economy in a situation of general crisis in Eastern Europe:

- the decrease of the growth rate amounted to an economic decline,
- a large part of the population became impoverished to the extent that the level of social polarisation exceeds the extent typical of market economies,
- unemployment started to rise rapidly,
- inflation accelerated,
- a large amount of internal and external debt was accumulated,
- the Comecon, which maintained Eastern European integration artificially, ceased to exist so that former member states were forced to redefine the direction of foreign trade,
- regional inequalities increased.

Let us take a closer look at these bottlenecks now.

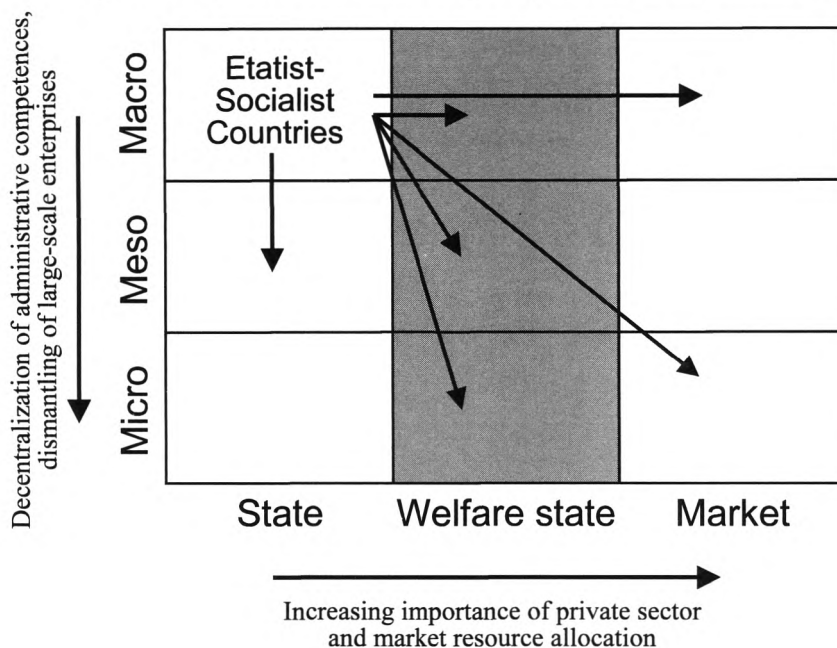
a) The two basic elements of the *planned economy model*, mainly related to previous Soviet practice, but rooted in Marxist philosophy, were “uninterrupted” growth and the new type of person that was subject to collective authority. The main differences between planned and market economies are that in the former case investment decisions were made in central offices, heavy industry was considered as the driving force of development, and the role of infrastructure in economic development was underrated. But above all, control of the economy resided within a narrow group consisting of the Communist party (*Kornai, J. 1992*).

b) In centrally planned economies, *state-socialist governments* worked out several detailed programmes, tasks, packages and measures for the organisation of production and sales, especially in the competitive sector. In opposition to the basic logic of economics, infrastructure developments for public use were scarce in public programmes. In some countries, the financing for these services (telephone, water pipes, canalisation) was provided from private resources in the 1970s and 1980s. It is not easy even in the West for the state to withdraw when a sector or a region is in crisis, especially if society expects the government to correct the imperfect operation of the market. In East Central Europe, newly elected governments introduced cost-cutting programmes, but they could not resist the inclination to overspend, which is what they had been used to.

Apart from a regular budget deficit, this psychological pressure blocks the decentralisation of the allocation of market resources. The main objectives of the decentralisation policy in the transitory period is demonstrated by *Figure 1*. However, the organisational transformation takes place at a different pace in each countries, for political and economic reasons and due to the underdevelopment of the vertical system of public administration.

Figure 1

Objectives of the decentralisation policy in transition economies



Source: Dostal et al. 1992. p. 8.

c) A general crisis unfurling in East Central Europe; then the systemic change inevitably brought about the elimination of less competitive actors in the economy, which led to employment problems, as well as social and political tensions. The volume of *growth losses* indicates the costs of the establishment of new models of economic restructuring (Table 2).

d) The biggest source of tension during the transition is the rise of *unemployment*, for which former Comecon countries were unprepared. They had neither a concept of social protection nor institutions and resources to handle the situation (Table 3). We can anticipate a further growth in unemployment and a further increase in regional differences. Unemployment has become the major regional problem in the countries of East Central Europe. There is a 3- to 4-fold difference in unemployment rates between developed and underdeveloped regions. In the Czech Republic and Slovakia, the unemployment rate of Prague was 1.6% in 1996, while that of Eastern Slovakia was 15.0%. In Hungary, the unemployment rate in Budapest was 5.0% in 1996, while in the north-east counties of Hungary it reached 19.0%. The differences within Poland were of a similar scale at the end of 1996.

e) The change of the economic structure is made difficult in each country by the high *inflation rate* (Table 4) and the *burden of foreign debt*. The external financial situation of the five countries of Central Europe had already worsened in 1990, before trade with the Soviet Union collapsed. The amount of total gross debt rose from 80 billion USD to 90 billion USD (85% of which are the debts of the Czech Republic and Slovakia, Hungary and Poland) and the different indices of indebtedness worsened, too (Gibb, R. A.–Michalek, W. Z. 1993).

Table 2

Growth rates of GDP in East Central Europe, 1950–1995, percent

Countries	1950–1959	1970–1979	1980–1988	1990	1994	1995
Bulgaria	6.0	2.3	1.2	-9.1	-1.0	2.1
Czechslovakia	3.8	2.0	1.2	-0.4	–	–
Czech Republic	–	–	–	–	2.0	4.8
Slovak Republic	–	–	–	–	3.9	6.8
Jugoslavia	–	5.0	–	–	–	–
Croatia	–	–	–	-14.4	-9.0	n. a.
Slovenia	–	–	–	-8.1	5.0	3.9
Poland	2.7	2.6	-0.2	-11.6	2.0	6.0
Hungary	3.8	2.3	1.1	-3.3	2.0	1.5
Romania	4.8	4.4	-7.4	-7.4	1.0	7.1

Source: Economic Bulletin for Europe, 1995; National statistical yearbooks, various years.

Table 3

Unemployment rates in East Central Europe, 1989–1996, percent

Countries	1989	1992	1994	1996
Bulgaria	0.0	14.8	16.1	13.6
Czechslovakia	0.0	–	–	–
Czech Republic	–	2.6	3.5	3.4
Slovak Republic	–	10.4	14.8	10.9
Jugoslavia	n. a.	8.5	–	–
Croatia	–	–	17.4	n. a.
Slovenia	–	–	14.8	7.3
Poland	0.3	13.6	16.7	12.4
Hungary	0.5	12.0	12.2	10.5
Romania	n. a.	8.5	11.5	8.0

Source: Economic Bulletin for Europe, 1997; National statistical yearbooks, various years.

Table 4

Inflation rates in East Central Europe, 1989–1996
(Percentage change in consumer price indices)

Countries	1989	1990	1991	1992	1993	1994	1996
Bulgaria	6.4	26.3	334.0	90.0	60.0	96.0	123.0
Czechoslovakia	1.4	10.0	58.0	11.0	–	–	–
Czech Republic	–	–	–	–	25.0	10.0	8.8
Slovak Republic	–	–	–	–	50.0	13.4	5.4
Jugoslavia	n. a.	n. a.	–	–	–	–	–
Croatia	–	–	123.0	665.5	1517.5	97.6	n.a.
Slovenia	–	–	117.7	201.3	32.3	19.9	9.7
Poland	251.0	586.0	70.0	40.0	35.0	33.3	18.7
Hungary	17.1	28.4	35.0	21.0	15.0	19.1	19.8
Romania	0.9	4.2	161.0	200.0	95.0	136.8	38.8

Source: PlanEcon Business Report; Economic Survey of Europe in 1994–1995, various pages.

f) A great deal of the economic problems of the small East Central European countries derived from the collapse of Comecon. The *liberalisation of the economy* and the transformation of the relations of foreign trade resulted in a decline in exports for all countries (Table 5).

g) The ideology of *regional and urban policy* under the state-socialism (classical Marxist theory, utopian urbanistic notions and planning theory) and the objectives derived therefrom (proportionate development, moderation of differences between villages and towns, spatially even distribution of social benefits) lost ground and the new forces of the market economy have started to forge a new type of differentiation.

Table 5

Foreign trade in East Central Europe, 1980–1994,
billion USD

Countries	1980		1990		1994	
	Export	Import	Export	Import	Export	Import
Bulgaria	7.16	6.32	5.32	5.58	4.00	4.11
Czechoslovakia	10.48	10.62	10.73	11.81	–	–
Czech Republic	–	–	–	–	11.97	12.64
Slovak Republic	–	–	–	–	4.24	4.73
Jugoslavia	7.51	13.23	12.95	17.32	–	–
Croatia	–	–	–	–	5.78	4.66
Slovenia	–	–	–	–	0.98	6.67
Poland	13.07	14.71	18.29	12.62	17.04	21.38
Hungary	8.61	9.12	9.73	8.80	10.70	14.60
Romania	9.22	11.06	4.57	6.89	5.97	6.29

Source: Economic Survey of Europe in 1994–1995, various pages.

The drastic decrease in state support, the change in foreign trade and the disintegration of large state-owned companies had different impacts on the central regions and the peripheries.

3 Regional differences in the early 1990s

Practically the only result of an apparent equalisation policy was that there were no striking differences, standing out of the European picture, between the macro-regions. As a consequence of a generally weak economic capacity, the regional distribution of underdevelopment seems to be balanced. Just as in other countries of Europe, this statement is valid for large territorial units, but among the smaller regions the differences are much bigger. If we look at per capita GDP in Eastern Europe, the scale of regional difference does not differ much from the data from the European Union (*Table 6*).

Table 6

Differences between the poorest and the richest regions in the European countries by per capita GDP, 1993 (in purchasing power parity)

Countries	Most developed	Less developed	Difference
	r e g i o n		
Bulgaria	Sofia	Montana	5.00
Germany	Hamburg	Mecklenburg-Vorpommern	3.44
Austria	Wien	Burgenland	2.26
Belgium	Bruxelles	Brabant Wallon	2.23
Hungary*	Central Hungary	Northern Hungary	2.15
Italy	Lombardia	Calabria	2.15
Poland	Warsaw	Warsaw region	2.11
France	Île-de-France	Languedoc-Roussillon	1.94
Slovakia	Northern Slovakia	Eastern Slovakia	1.90
Spain	Madrid	Extremadura	1.81
Greece	Attiki	Ipeiros	1.70
The Netherlands	Groningen	Friesland	1.65
Finland	Uusimaa	Eastern Finland	1.65
Portugal	Lisboa e Vale do Tejo	Alentejo	1.64
Czech Republic	Prague	Central Bohemia	1.61
United Kingdom	South-East	Northern Ireland	1.46
Denmark	Hovedstadsregionen	Vest for Storebaelt	1.46
Romania	Bucharest	Southern Moldova	1.37
Sweden	Stockholm	Southern Sweden	1.37

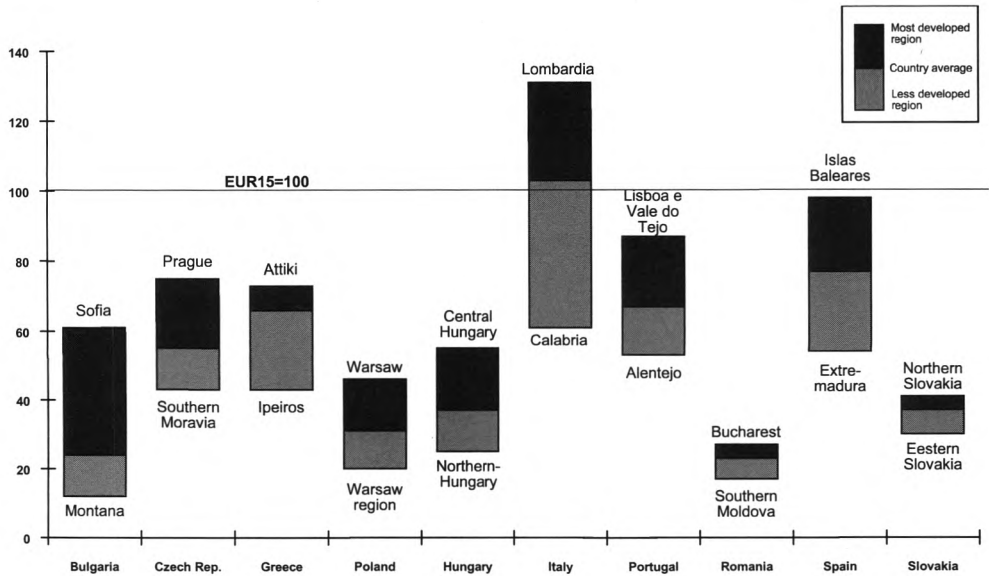
* 1996

Source: Calculations by the author on the basis of Eurostat, Brussels, 1994; The Impact on Cohesion of EU Enlargement, 1996, p. 103.

General underdevelopment is underlined by the fact that there is no region in East Central Europe where per capita GDP exceeds the average of the EU, and only three capital city regions (the regions of Prague, Budapest and Sofia) are close to 75% of the EU average. The overwhelming majority of the regions can be found at the very bottom of the rank of the European regions, and there are only a few Czech, Polish and Hungarian regions the economic performance of which is better than that of the most underdeveloped Portuguese, Greek and Spanish regions (Figure 2, Table 7).

Figure 2

Per capita GDP in East Central and Southern European countries, along with regional extremes, 1994, EUR 15 = 100



Source: Regions. Statistical Yearbook, 1997.; National statistical yearbooks, various pages. Designed by the author.

Taking the national average as 100%, the data for the capital cities are as follows: 153% for Prague, 170% for Warsaw, 181% for Budapest, 125% for Bucharest, 250% for Sofia and 175% for Bratislava. Although in each country the regions of the capital cities have the highest GDP values, the concentration of the share from the total of the gross domestic product is not higher than in the countries of Western Europe (Table 8). It is also clearly visible from the data that in really multi-polar countries, the degree of concentration is smaller. The income-generating ability of the regional counter-centres is a long-term guarantee for a relatively balanced regional dispersion of economic structures and relatively more

complex socio-economic functions. Such areas can thereby become economically prosperous. We have to be careful, however, with the data on Eastern Europe, as only the first phase of the transition processes has taken place (in fact, in some countries it is only beginning now). The formation of new structures can further differentiate the economic potential of regional elements and the growing national income can strengthen the development potential of core regions. The “flagships” of the transition have defined ambitious development programmes. Often using their political and decision power position, they have been trying to enter a post-industrial development track so as to become more like a modern Western European big city that has multiple functions and is integrated into the European urban network (*Enyedi, Gy.* 1997, 1998). If the internationalisation efforts of the big cities are not accompanied by decentralised regional policies and the deregulation of a still unitarian state structure, then in the future the opposition between the interests of the capital city and the rest of the country will sharpen and maybe federalist regional movements will emerge (*Regulska, J.* 1996).

Table 7

*Breakdown of East Central European countries
by development categories, 1993*

Countries	Per capita GDP as a percentage of the EU average						Total
	-20.0	20.1-30.0	30.1-40.0	40.1-50.0	50.1-60.0	60.1-75.0	
Bulgaria	6	2	–	–	–	1	9
Czech Republic	–	–	–	7	–	1	8
Poland	1	8	–	1	–	–	10
Hungary	–	2	2	2	1*	–	7
Romania	2	6	–	–	–	–	8
Slovakia	–	–	3	–	–	–	3
Total	9	18	5	10	1	2	45

* Budapest and Pest county are counted together as the Central Hungarian region. Per capita GDP of Budapest amounts to 67% of the EU average.

Source: Calculations by the author on the basis of the Impact on Cohesion of EU Enlargement, various pages.

Looking at the regional effects of the transitions, we can see that the capital city regions are the winners of the transformation in all of the countries, while the positions that the other regions possessed in the former socialist system have changed. Transformation is taking place along different tracks (*Table 9*).

The drastic decline of state support, the changes in foreign trade, the disintegration of the large state-owned corporations had different impacts on the central regions and the peripheries.

Table 8

The weight of the capital city regions in the countries of Europe, 1994

Countries	Share in the country's GDP, percent (1)	Share in the country's population, percent (2)	Locational quotient (1:2)
Portugal	46.5	33.9	1.37
Greece	38.3	34.7	1.10
Bulgaria	35.2	13.3	2.64
Hungary (1996)	41.8	28.3	1.48
Finland	33.2	25.5	1.30
Austria	28.7	19.9	1.44
France	28.6	21.8	1.30
Sweden	23.3	19.3	1.21
The Netherlands	23.1	21.6	1.07
Slovakia	18.3	11.1	1.65
Czech Republic	18.0	12.6	1.43
United Kingdom	35.7	30.6	1.17
Spain	15.6	12.8	1.22
Belgium	14.5	9.3	1.56
Romania	12.8	10.3	1.24
Italy	10.6	8.9	1.19
Poland	9.8	6.3	1.56
Germany	5.4	5.1	1.06

Note: For lack of data available, the tables do not contain the figures for Ireland, Denmark and Luxembourg. The capital city regions of the EU member states are their NUTS 2 regions. In the case of Slovakia, we considered Bratislava and its district as the capital city region.

Source: Calculations by the author on the basis of the Impact on Cohesion of EU Enlargement. p. 97.; National statistical yearbooks.

Although restructuring had an unfavourable effect on traditional development poles, the *regions of the big cities* had already diversified through the transition process with smaller losses than single industry regions and rural areas (*Figure 3*). The penetration of the market economy and the formation of a modern economic structure can be seen in Warsaw, Krakow, Poznań and Wrocław voivodships in Poland, in the Budapest agglomeration and Northern Transdanubia in Hungary, around Prague and Karlovy Vary in the Czech Republic and in the area of Bratislava in Slovakia. These are the regions where the number of private businesses and the proportion of foreign investment are significantly higher than the national average and where the service sector (especially because of the growth in business and financial services) is slowly becoming the dominant sector of the economy. These regions are the carriers of innovation, they put out new products and are

Table 9

The impact of the systemic change on the position of the regions

		Post-socialist transformation	
		Positive	Negative
Position in the planned economy	Good	Positive continuity (Large urban agglomerations)	Negative discontinuity (Old industrial regions)
	Bad	Positive discontinuity (Western regions)	Negative discontinuity (Underdeveloped areas)

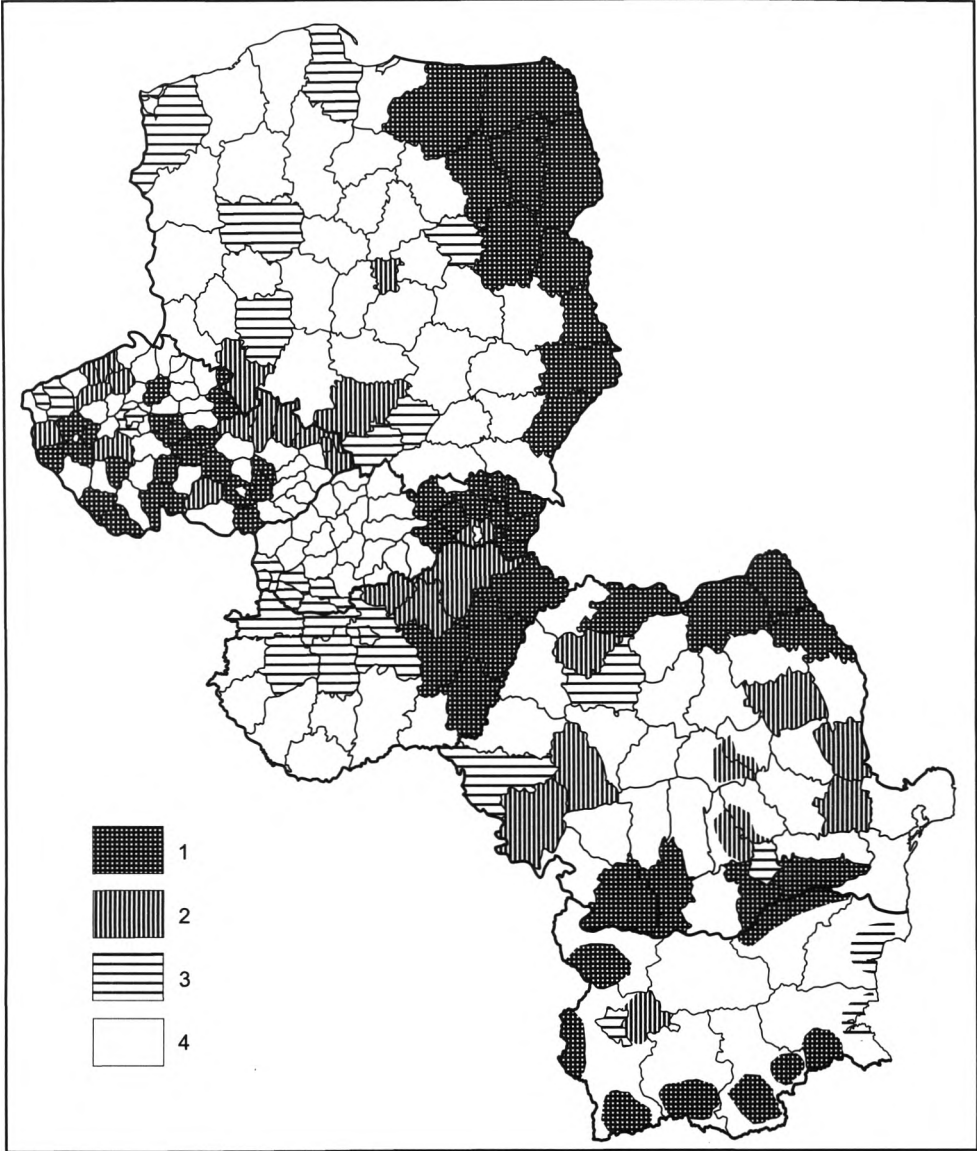
Source: Bachtler, J.–Gorzalak, G.–Horváth, Gy.–Klemmer, P. 1997. p. 27.

active in international co-operations. The gradual integration into the European division of labour and the orientation towards Western Europe appreciated the *regions along the western borders* in most of the countries. The geo-political factors of the western regions of these countries had been put to the background by political means before, but now the positive effects of the transition can be felt in these regions, too. After the political and economic transition, new opportunities open up for the intensification of the cross-border regional connections. Although already in the state-socialist era there were bilateral contacts between border regions, they were either formal political co-operations or consisted of simple exchanges of goods and labour force among micro-regions. Decentralised co-operations with independent regional decision competence, in the West European sense, could not emerge because of prevailing state-organising philosophy.

In the early 1990s, several interregional, multilateral co-operations started. The initial steps of the organisation of the Silesian (Czech, Polish and German) and the Carpathian (Hungarian, Slovakian, Polish and Ukrainian) Euroregions have demonstrated that the chances for interregional co-operations in this East Central Europe are less favourable than in other regions of Europe because of political, economic and ethnic features of the region and its historical background. There is a huge number of obstacles that need to be eliminated. The bottlenecks come from conflicts between countries, the centre–periphery oppositions and the weakness of regional administration, as well as from the paternalistic administrative practice of the state. In some cases, political circles had the impression that institutionalised co-operation might mean the re-organisation of power alliances that had existed

Figure 3

Types of regions in East Central Europe



Source: Designed by the author on the basis of national regional development documents.
Key: 1 – Regions lagging behind; 2 – Industrially declining regions; 3 – Developed areas;
4 – Transitional (rural) regions.

many decades ago. The Czech Republic is afraid of the strengthening influence of German interests, Polish nationalist politicians think that the co-operation of the western regions might mean that the influence of the Prussian region is increasing and the connections of the southern voivodships might be a reflection of Austro-Hungarian power. They attacked the co-operation in parliament in defence of a united Poland. The Romanian government did their best to block the participation of the Northern Transylvanian counties in interregional co-operations (*Illés, I. 1996, 1997; Illés, I.–Schön, K. P. 1997*).

Definitely, the losers of the structural transformation are the citadels of the working class that had earlier been given a strong preference. The *centres of heavy and light industry* and their agglomerations show typical features of depression: unemployment is high, so is the proportion of bankrupt companies, it is difficult to convert the skills of the labour force, entrepreneurial spirit is weak, the progressive labour force emigrates, and the environment is strongly degraded. In Poland, Upper Silesia is most threatened by the transformation. Coal mining, heavy and light industry have fallen into a deep crisis. Almost half of the active earners of this region of 4 million inhabitants, 800,000 persons, work in sectors struck by the depression. The problem is similar, although smaller in scale, in the Northern Moravian and Western Bohemian region in the Czech Republic, the regions of Plovdiv, Varna and Ruse in Bulgaria, in Romania, Hunedoara and Braila, Košice and its surroundings in Slovakia, and the Borsod and Nógrád industrial regions in Hungary. It is not possible yet to depict the future of these large industrial centres. There are regions (e.g. the Katowice voivodship in Upper Silesia) which can easily adapt the new elements of the market economy, where the decreasing output of the declining sectors can be partly replaced by privatisation and attract foreign capital, the demographic structure is relatively favourable, the infrastructure is good and there is an established network of research and development. The future for the cities that were based on a single company in a certain sector seems to be totally uncertain, however. They seem to be unable to survive.

The situation in previously *underdeveloped areas* was further exacerbated by the transition. Agricultural companies in rural areas disintegrated, the output of the food processing industry, previously producing for the Eastern market, dropped to one-tenth of its former volume. Because of an underdeveloped infrastructure, the unfavourable age pyramid and the low level of education of the population, these regions are further eroded.

The regional effects of the transitions were detrimental for a much larger share of the population than the effects of the restructuring on the population of Western Europe some two or three decades earlier (*Table 10*). Neither governments nor regional actors were ready for the changes. Regional policy only raised the interest of the economic politicians of Eastern Europe with a significant delay, in the mid-1990s, and mainly only because it was a condition for development aid from the European Union.

Table 10

Estimated data of the population living in regions at different levels of development in East Central Europe, 1994

Countries	Underdeveloped		Depressed		Rural		Developed	
	Million	Percent	Million	Percent	Million	Percent	Million	Percent
Bulgaria	2.68	34.0	1.07	12.7	2.44	29.0	2.05	24.3
Czech Republic	2.81	27.3	1.55	15.0	2.73	26.6	3.20	31.1
Poland	13.78	36.4	8.30	21.9	8.36	22.0	7.46	19.7
Hungary*	3.41	34.0	0.44	4.4	2.95	29.0	3.33	32.6
Romania	12.21	53.6	1.87	8.2	2.98	13.1	5.69	25.1
Slovakia	1.89	35.8	1.06	20.1	1.07	20.3	1.25	23.8
Total	36.78	38.9	14.29	15.1	20.53	21.7	22.98	24.3
EUR 15	97.91	26.6	60.36	16.4	25.33	6.8	184.78	50.2

* 1996

Source: East Central Europe: estimations by the author, based on regional development documents from each country. The data for the four types of regions were calculated according to meso-level territorial-administrative units; European Union: the categories "underdeveloped" and "depressed" contain the data of the regions eligible for support from the Structural Funds. Those NUTS 2 regions where the per capita GDP exceeded the national average in 1994 were considered as developed.

4 The emergence of a regional development policy

When the first signs of the collapse of the planned economies became palpable in the late 1980s, the demand for the establishment of a regional policy was hardly mentioned among the priorities of the transformation of the macro-regulation in any of the countries. Even if there were attempts to introduce regional incentives, the proposals were quickly swept aside because of opposing interests in the ministerial sectors. Local and regional governments were engaged with the creation of their own organisational forms and finance base, and the limited amount of the state resources was not favourable for putting one more element, regional development support, into a system of redistribution.

The birth of a regional policy was blocked by three factors in the transitory period: the limited support for an independent regional policy in government circles, the weakness of the system of institutions of regional development, and the problems of regional administration. Although some development concepts were made every now and then, they were *ad hoc* ones, with weak methodological grounds, and they tended to promote the resolution of small-scale objectives without well defined organisational systems and methods. Hungary was the only country where regional development at least appeared in the structure of the central government as an activity supported by the state, but regional development in the 1990–1994 period was no more than an occasional intervention. Because of the low amount of

the re-organised regional development fund and a separate, fragmented financing, the inputs had only a weak effect. The Czech Republic tried to apply regional allowances in support of small businesses, and Slovenia worked out a regional development support programme for the revitalisation of the regions with oscillating populations. In several countries, ministerial sectors used regional perspectives as a palliative for regional decline when redistributing their resources, but these cannot be considered as measures for a structural policy.

We also have to see that the political decision-makers in the Eastern European countries face several dilemmas, which inevitably make the formation of a consistent regional policy more difficult. The first question that has still remained unanswered is whether regional policy is an effective tool for the solution of the tasks in the transition. As the crisis can be felt at any point of an individual state and resources are scarce, can we not reach more favourable changes by using a modern industrial policy than with a regional policy based on redistribution? The other general deficiency is the lack of legal frameworks and constitutional bases for a regional policy in most of the countries. Neither at the central nor at the sub-national level are there institutions for the organisation of the planning and the implementation of development and for the stimulation of co-operation between the public and private sector. There is insufficient co-ordination among the still strongly centralised development resources. The operation of the institutions, created in some places for the harmonisation of sectoral interests, is only formal. There is fierce competition among ministries and politicians for control over development policy and its resources. Similar phenomena can be seen at lower levels of the state administration, too. The tasks of regional development are usually allocated to the devolved organs of the central ministries, just like development agencies created with foreign support are operated as subordinates to a centre.

Finally, the third factor influencing regional development policy – which can be considered as a favourable effect – comes from the criteria of joining the EU. Potential members have to adjust gradually their policies and institutional systems to the rules of the integration process, especially in order to conform to structural and cohesion programmes (Horváth, Gy. 1997, 1998). The acquisition of Western European methods is blocked, however, by the fact that both Phare support and bilaterally financed programmes are controlled exclusively by the central ministries. Their application is not planned well enough and they do not fit into national development concepts. Regional actors are passive participants in these programmes.

Despite these common features, the level of preparation to accept modern regional policy varies from country to country in Eastern Europe. In *Poland* – which is a typical case of a country where regional development is pushed aside – official documents emphasise the unfavourable effects of differentiation, but not a single line of the sectoral documents mention them. Although the State Planning Office is still alive, their new authority does not cover regional policy, which belongs to

three ministries now. The Ministry of Labour and Social Affairs has the strongest influence, as they have significant resources to moderate unemployment. Poland has no regional development concept. The first working groups for defining the principles of regional policy were organised in 1995. The centrally controlled development agencies have been operating since the mid-1990s, running as many as 60 local offices in 1996. The Phare programmes supported the development of small businesses and re-training programmes in six voivodships (Olsztyn, Suwałki, Łódź, Rzeszów, Wałbrzych and Katowice).

The *Czech* government prepared their guidelines in 1992, entitled "Principles of the Regional Economic Policy". The document defined the main task of regional development in increasing the number of jobs in backward regions. The programme proposal concerned the heavy industrial regions, putting 24% of the population of the country into this category. The Ministry of Economy is responsible for the control of regional development, so it is natural that the concept proposal considers the support of the small businesses as the most important tool of development (*Blažek, J.* 1997). In its methods, however, this document was based on the categories used by the planned economies, putting the creation of the conditions of a balanced economic growth into the foreground, making a sharp distinction between productive and non-productive investments. The indifference of the fragmented regional administration and the resistance of the central bodies prevented the document from being discussed by the Czech Parliament. Newer and still newer concepts are born practically every year, the problem regions change and there is no single opinion about the forms of regional incentives either. A certain degree of consistency can only be seen in the restructuring programme of Ostrava, financed by Phare.

In *Slovakia* – also because of the general political trends – the traditional planned economy-like attitude towards regional development is even more striking. Official economic policy makes the control of regional development synonymous with physical planning, and defines the role of that in the promotion of balanced socio-economic development of the regions, the use of the local resources by the national economy, the harmonisation of economic and social functions of the regions and the settlements and the maintenance of the environmental equilibrium of the regions. Regional development is officially the responsibility of the Ministry of Strategic Planning, the implementation of the development programmes is carried out by the Ministry of Economic Strategy, which considers as the main objective saving large companies and stabilising employment. Fifteen billion crowns were spent on the consolidation of the aluminium plant of Hronský Benadik and the iron manufacturing plant in Košice. Significant amounts of foreign capital were invested and tax allowances were introduced. The other form of regional supports, with incomparably less means than the previous one, is the programme for the re-training of the workforce of the liquidated companies. The third field of activity is the recommendation of the Slovak regions and companies to the

foreign investors. The marketing programme is managed by the national agency responsible for the co-ordination of foreign investments.

Bulgaria and Romania, interestingly enough, place great emphasis during the preparations of their new regional development policies on the creation of an institutional system promoting the development of connections for European integration (Geshev, G. 1997; *Green Paper*, 1997). This effort is due to the fact the government organs in both countries are aware that they can mainly rely upon support from the EU in regional development programmes because of their weak market economies. In Bulgaria, for example, new development concepts have been made for the regions along the Black Sea, along the Danube river, the border regions and the mountainous areas. The main focus of the regional development strategy of the Bulgarian government is the stimulation of the spatially even distribution of Community investments, the decrease of regional inequalities, and the restructuring and stimulation of cross-border co-operations. The transformation of the institutional system has also started. In 1996, a government committee responsible for regional development was set up. In Romania, a draft of the regional development concept, made in 1997 with Phare financing, intends to shape in the medium term the new regional development policy of Romania and create the central and regional institutions of development according to the principles and regional programming methodology of the European Union.

Commission reports on application for membership of the European Union (*Agenda 2000, Commission Opinion...*) concluded that the regional and cohesion policy in East Central Europe was in a state of flux. Accession to the Structural Funds was being prevented by the following factors (*Table 11*):

- Regional policy instruments and legal regulations are very weak;
- The institutional system is underdeveloped, co-ordination between sectoral ministries is ineffective, territorial governments are lacking in instruments, their professional skill is low;
- East Central European countries need to pay more attention to existing regional disparities and to establish necessary financial control in order to apply Community rules and in due course utilise Structural Funds.

The working out of the content of regional policy, the definition of its organisational system and means and the making of this partial policy form an independent socio-economic field of force. Its integration into the tasks of modernisation can take place in the future in East Central Europe through different strategies. One version is a regional policy based on dominant state participation and a system of devolved organs. The other solution can be a policy starting from regional initiatives and from the decentralisation of the means of state responsibilities. This latter is the prevailing direction of regional development in Western Europe now, even in those countries where the dominant political powers assign more

Table 11

Recommendation of the European Commission for East Central European countries in regional policy

Tasks	Bulgaria	Czech Republic	Poland	Hungary	Romania	Slovakia	Slovenia
Legal regulation	X	X	X		X	X	X
Institution building	X	X	X		X	X	X
Co-ordination between institutions	X	X	X	X	X	X	X
Financial instruments	X	X	X		X	X	
Co-ordination of resources	X	X	X	X	X	X	X
Control mechanisms	X	X	X	X	X	X	X
Regional statistics	X	X	X		X	X	

Source: Designed by the author on the basis of Enlarging the European Union, various pages.

responsibilities to the state in the regulation of the market processes. Because of the regionalisation of the European integration, the appreciation of the territorial decision centres in the international division of labour and the geo-political position of East Central Europe, a co-operative, restructuring-oriented, innovative regional policy can also be an effective strategy for modernisation. It has to be taken into consideration, of course, that the conditions for that cannot be created in all of the countries and in each region, not even in the longer run. It is very much likely, thus, that for a long while the combination of the traditional Western European regional policy from two decades ago and the elements of the new regional policy paradigms will characterise the regional development strategies in East Central Europe.

5 The role of the regions

In East Central Europe, the dominant organisational form of regional development was the hierarchic planning apparatus, with a strong central planning authority in each of the countries. Regional developments that were based upon large central investments and the social policy of the state did not require a horizontal institutional system with a large number of actors. The interests of the state redistribution and the will of the central power could be best asserted by vertically subordinate institutions. This logic of the state organisation determined the territorial-administrative division of the countries as well.

Although in its form and in some of the basic principles of operation, socialist public administration did not differ much from that of developed democracies. The

dominant principle of organisation, so-called “democratic centralism”, and the omnipotence of the communist party still resulted in a strange functioning of public administration. The local organs of the power were essentially – especially in the first three decades of extensive industrialisation and urban development – the consistent executives of central authority, ignoring any regional aspects of development. As the dictatorships got a little softer in some countries – in Poland and Hungary – local initiatives were given more and more emphasis. This is one of the factors that allowed the appearance of civil activities (tertiary sector, private initiatives) in the urbanisation of these countries in the 1980s.

Following the systemic change, the content of the state building philosophy in East Central Europe went through important changes. The hierarchic, executive style council system was replaced by a self-governmental structure. The acts on local governments created the constitutional ground for the decentralised practice of power. Regional governments now have constitutional guarantees for their organisational and decisional independence (Tóth, K. ed. 1997). Significant changes have taken place in the financing of local governments, too.

Despite favourable changes, there is still an open question which is important for regional policy: the issue of the administrative units between the central state and the settlements (the meso level). It is a general phenomenon in East Central Europe that these levels have very weak local government powers. This is mainly due to the negative role that they had in the former system, as a reaction against the extremely strong political and redistributive functions that they used to have.

During the last decade, significant differences could be seen in the operation and in the transition of the functions of the *territorial-administrative system* between Western and Eastern Europe. In the member states of the European Union, the role of the subnational level was appreciated after the Single European Act came into force, partly because the new, general organising principle of the European Communities, subsidiarity – after the modification of the original concept – amounted to the expansion of the authorities of subnational administrative units. Also, the level below the national government has been assigned a key importance from the aspect of a common European regional policy. The new structural and support policy declared as an important principle the co-operation with local governments of the structurally weak and economically declining regions, as well as the co-ordination of regional and national economic development strategies (Heinelt, H.–Smith, R. eds. 1996; Hooghe, L. ed. 1996; Jeffery, Ch. ed. 1997; Sharpe, L. J. ed. 1993).

The territorial decentralisation of power and the division of labour among various local governments were in the crossfire of debates in states of East Central Europe. The transformation of the political system, the integration into a globalising European economy and the creation of a local governmental structure asserting the principles of civil democracy all redefined the mutual connections between central and regional powers, the harmonisation of the independence of the settlements and the administrative functions at the meso level. In almost all ex-socialist

countries, the economic, political and functional transformation of the basic governmental tiers became a central question. The former subnational level ceased to exist (in the successor states of Czechoslovakia) or new regional meso levels were (in Croatia) or are being organised (in Slovenia).

The appearance of the market economy made it clear relatively quickly that neither can regional tensions be moderated nor can regional policy objectives in most of the countries be implemented. Regional programmes cannot be worked out without a comprehensive reform of the functions of the territorial meso levels. It is not by chance that the revision of the functions of the meso level have raised the issue of the institutionalisation of regionalisation and the creation of a small number of regional units with similar size and authorities as the territorial meso-levels of the federal and regional states in Western Europe.

The role of economic regionalisation in the *modernisation* of East Central Europe can be the best seen in Poland: e.g. the modernisation programmes of the Poznań voivodship have a multiplier effect in the Wielkopolska region and the first suggestions for the organisation of the Polish regional administration were started in this voivodship.

The states of Europe will also move towards a new order of state organisation in the near future because of the internationalisation of the economy and the deepening of European integration. The importance of the further development and the reconsideration of meso level administration is underlined by the following factors in East Central Europe:

- a) The phenomena of disintegration in the local government sector show that common points of the law and interests are deficient in the system; the model of building voluntarily, exclusively from below, proved to be wrong;
- b) Because of a basically one-tiered system of local governments, regional development tasks were neglected, and some of the deconcentrated organs of the state try to fill this gap. The devolved state administration, intruding into the vacuum of the meso-level of the administration, carries out tasks that should not be their responsibility. Also, the structure of the state administration is sectoral, which led to a lack of co-ordination and information, as well as interest harmonisation;
- c) The disintegration of the system of local governments, the malfunctions of a devolved public administration reinforced the centralisation efforts of the government. In public administration, there is a competition between the state and the local governments;
- d) The tendency for the nationalisation of the meso-level is in contrast to European integration processes, and this contrast can only be eliminated by the creation of a meso level of local government;
- e) An important task for territorial administration in the future could be the representation and defence of the notion of interregional co-operation before

the organs of central government. It should not be forgotten the “Europe of the Regions”, as one of the main principles of the European integration, can only become reality through the co-operation of regional units that have approximately the same competences and complexity.

If the units at the meso level are going to be given an important role in regional policy in the future in East Central Europe, the issue of the present meso level divisions will necessarily emerge. The size and economic potential of the present counties, voivodships, districts is too small to make them the basic units of a decentralised regional policy (*Table 12*). So it is understandable that in several

Table 12

*Major data of territorial-administrative and development units
in East Central Europe, 1996*

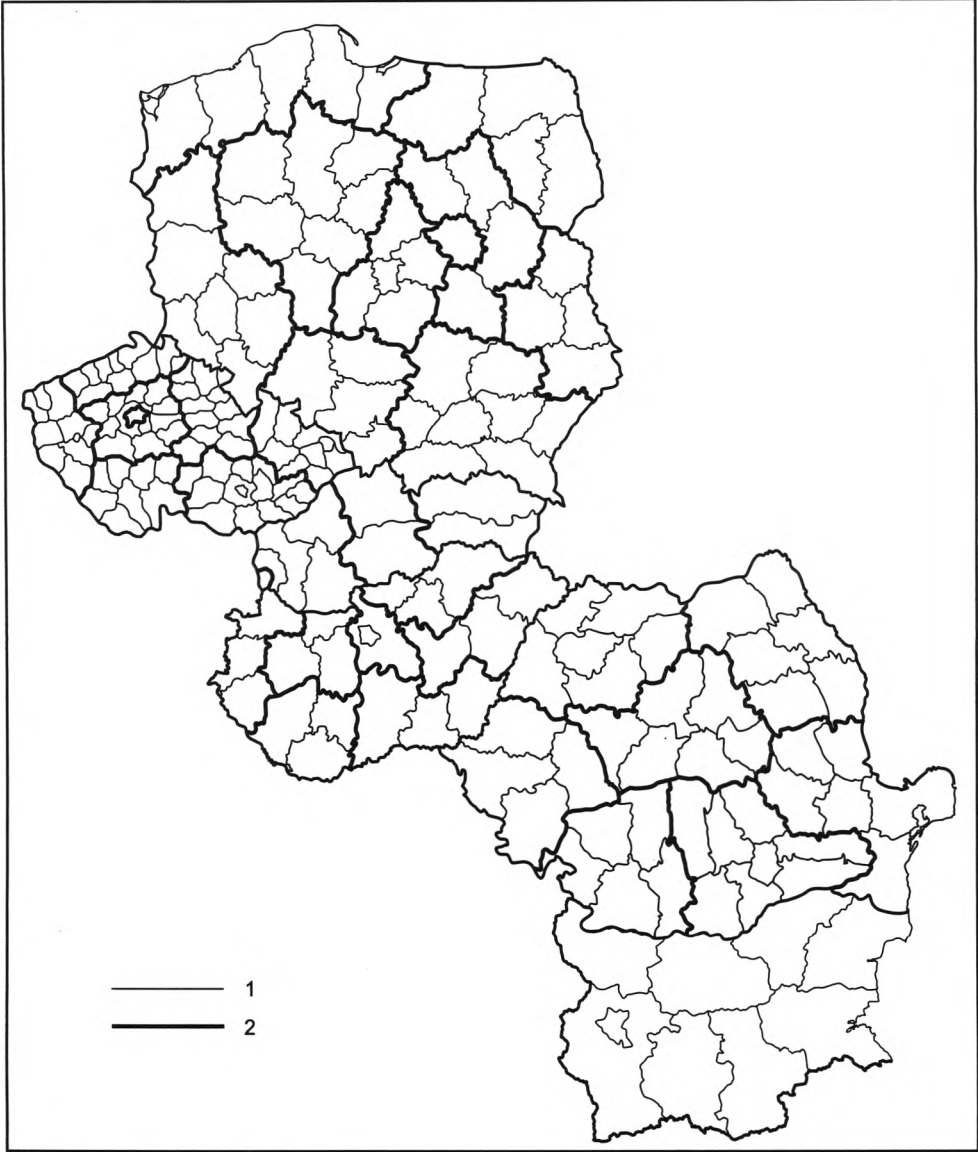
Countries	Number of meso- units	Average surface area, km ²	Average population, '000	Average population, '000	
				Number	of NUTS 2 regions
Bulgaria	9	12,323	931	9	931
Czech Republic	76	1,036	136	8	1,290
Hungary	20	4,651	509	7	1,459
Poland	49	6,381	774	10	3,861
Romania	42	5,654	539	8	2,832
Slovakia	8	6,106	671	3	1,789
<i>East Central Europe</i>	<i>204</i>	<i>4,322</i>	<i>468</i>	<i>45</i>	<i>2,122</i>
<i>EUR 15</i>	<i>321</i>	<i>9,941</i>	<i>1,156</i>	<i>206</i>	<i>1,801</i>

Source: Calculations by the author according to national statistical yearbooks and regional development documents.

countries, concepts were made for the creation of the new units for territorial administration (*Figure 4*). Regionalism is expected to strengthen in more and more countries in the future, which must bring about the re-definition of the division of labour between the centre and the peripheries. The number and designation of the new regional units are subject to intensive professional and above all political debates. In Poland and Slovakia, parliaments decided upon the organisational frameworks of a new public administration in 1996. The Polish territorial meso-level would consist of 12 voivodships, local administration would be made up of 250 districts and 2,500 settlements. In Slovakia, 10 counties would be organised above the present administrative structure (their creation would not follow ethnic borders, however). With respect to the number of units in the new meso-level, the most

Figure 4

Development regions in East Central Europe



Source: Designed by the author.

Key: 1 – Border of current meso level;

2 – Border of current development region or future meso level.

alternatives have been created in the Czech Republic. One of the versions is predicated on the former division of Czechoslovakia into districts. Only one new district would be organised in Moravia, increasing the number of the units of the meso level to 9. The other version, building on the urban centres with potential organising power, suggests that 17 districts should be created, but then the size of the new units would be too small. A third proposal would organise a regional government in Bohemia and one in Moravia, federalising the country in a way. Finally, there is a concept based on historical traditions: it would re-organise the 13 districts. The formation of the regions is made urgent by the fact that the Czech constitution requires a two-chamber parliament, and the regions will be necessary for the election of the senate along regional patterns.

Interregional co-operations abiding to economic laws can only emerge and the cohesion in East Central Europe can only increase if the tasks accumulated in this region are resolved. These are the real decentralisation of power and the preparation for a regional development strategy in compliance with a market economy. In other words, only if regionalism in the Western European sense takes root in the region can economically feasible interregional co-operation and integration occur.

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HUNGARY: FROM “EAST” TO “WEST”

(THE TRANSFORMATION OF THE GEOPOLITICAL POSITION OF HUNGARY IN THE PERIOD OF 1988–1998)

ZOLTÁN HAJDÚ

1 Introduction

The political, geopolitical situation of a country is determined by external (global, continental, neighbourhood) and internal circumstances. The external economic and political surroundings actually comprise the ‘general conditions’, in which internally formulated and legitimated objectives and interests can be implemented. Internal legitimisation has an extremely important role in “alliance relationships”: but it may as well – in a peculiar way – appear in connection with “enemy images”.

The sharp contrasts of the polarised world established after World War II, a divided Europe, the capitalist and socialist economic and political systems and the military blocs since 1972, the ratification of the SALT 1 agreement and later in 1975, the ratification of the Helsinki Final Declaration, developed erratically but showed a definitely weakening trend. This opposition of the two systems lost its focus with the internal transformation of small European socialist countries and after the collapse of the Soviet Union it practically ceased to exist.

The European transformation process was determined primarily by world power-relations and the global political situation in which Hungary had little influence. In the new situation which developed, by the end of the 1980s Hungary’s opportunity for influence came about. After 1990 a new situation developed in and around Hungary. With the collapse of the Warsaw Treaty, Soviet troops withdrew, Comecon ceased to function, internal socio-economic and political transformations took place and the previous political system was dismantled. With such changes, new opportunities arose for Hungary in shaping both its internal circumstances and external relationships.

The global political integration of Hungary took place, its network of European relationships was transformed and its neighbouring environment changed. The country had established relationships with integration organisations in Western Europe prior to the political transformation; in the new situation the Hungarian political elite and the public defined access to the European Union and NATO as priority targets. Thus the country began a conscious preparation for EU integration.

The changes in the macro-region surrounding the country can be characterised primarily as the disintegration of socialist federations and an increasing number of independent states. The neighbours acquiring independence (such as Slovakia, Ukraine, Croatia and Slovenia) had less influence than their predecessor states, therefore Hungary's area of influence grew. The state-building process in the neighbouring countries was uncertain. For Hungary the most important challenge was the civil war in the former Republic of Yugoslavia; at the same time this bloody conflict significantly accelerated the rapprochement of Hungary with NATO.

Integration into NATO and later the European Union will basically change the geopolitical situation of the country and its security policies. Through its membership, Hungary will benefit from the frameworks of a stable Europe and new alliances will evolve.

In our study we approach the geopolitical changes primarily from the Hungarian viewpoint, and we treat the problem of their social legitimisation as a priority.

2 Geopolitical situation of Hungary in the 1980s

(Faithful ally, good friend, correct co-operating partner – the happiest barrack of the socialist bloc)

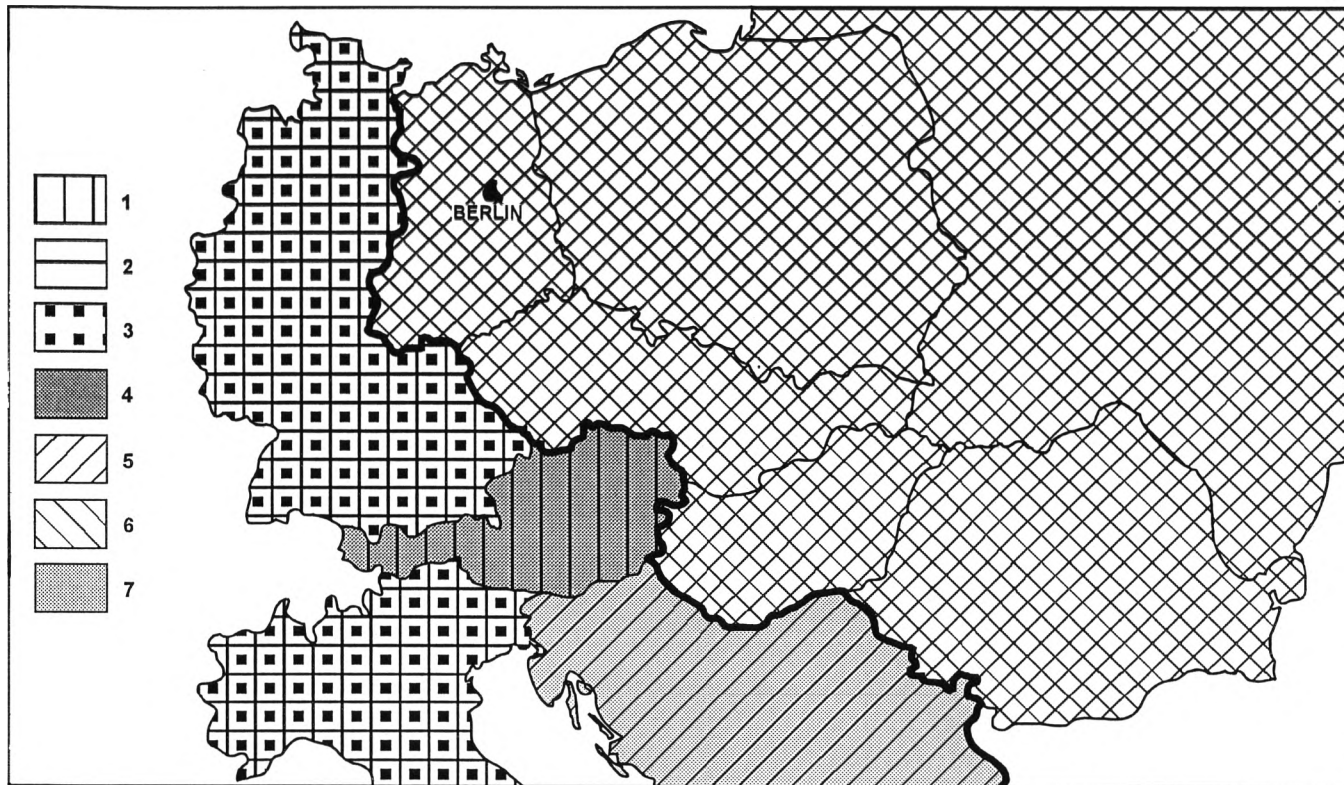
The geopolitical situation of the country was determined by its membership of the socialist federation. The majority (84.1%) of the state borders (2,246 km) was contiguous with socialist countries and 56.9% of it was so called "allied, military integration border". Only 15.9% of the Hungarian state border was shared with neutral Austria. According to the values of the times this neighbour-situation was considered an advantage (*Figure 1*).

Belonging to the socialist allied system mainly meant a very close connection with its leading power: the Soviet Union. Bilateral contacts with other member states were rather insignificant. Both the Warsaw Treaty and Comecon were unipolar organisations despite the formal declaration of the equality of member states. The essence of both organisations and especially that of the military alliance was determined by the Soviet Union.

Following the intervention by the Soviet Union in Afghanistan it became ever more apparent – though it probably was not a secret for the leaders of smaller socialist countries – that the leadership of the Soviet Union acts in accordance with its own geopolitical targets and values and pays rather less attention to the short- and long-term interests of its allies. The sharpening of Soviet–American bilateral relationships and its consequent negative economic impacts had a more profound effect on the smaller socialist countries.

Figure 1

Political geographical situation of Hungary in the divided Europe, 1988



Key: 1 – capitalist countries, 2 – NATO members, 3 – EEC members, 4 – neutral countries, 5 – socialist countries, 6 – WT members, 7 – non-allied states.

Hungary had within the alliance-system a very close connection to the Soviet Union. These connections started to develop unevenly in the 1980s in different fields. There were occasional lapses of judgement in internal and international political processes, while disagreements appeared in economic contacts, mostly due to the stronger representation of Hungarian national interests. Meanwhile, military matters were treated as taboo.

In international political relationships within the socialist alliance, the role of the Soviet Union was of course determinant, dictating the relation of member states to the Soviet Union. Tensions and disagreements were rather rare: though always more frequent in Hungarian–Soviet political contacts. These tensions originally resulted from the different interpretations of economic reform, then from the Hungarian demand for increased oil-transportation and later to differing interpretations of the political reform processes launched by president Gorbachev.

The Hungarian state and party leadership never publicly criticised Soviet political practice, yet there were several tense negotiations between Leonid Bresnev and János Kádár. After 1985 – following the election of Mikhail Gorbachev as secretary-general – the official view of previous Hungarian reform-measures was more positive; but at the same time further Hungarian reforms were formulated with regard to those of Gorbachev.

The relationship of Hungary with the neighbouring socialist countries did not lack conflicts in the 1980s. Relationships with Romania sharpened as a result of the rapid worsening of the situation of Hungarian minorities living in that country. The relation to Czechoslovakia was changing due to the difficulties with the construction of the Danube power plant and again a decline in the situation of the Hungarian minority there. In Hungarian – Yugoslav relations – as compared to earlier years – a relatively consolidated situation held. Yugoslavia was occupied with its own internal problems, trying to overcome the difficulties and contradictions which followed the end of the Tito era.

The Hungarian economy was organically integrated into the labour division system of Comecon and especially that of the Soviet Union. The socialist economic engagement gradually declined, partly as a result of stronger representation of Hungarian economic interests and partly through the growing connection to the western global economy.

In the year 1985 the basic structure of Hungarian foreign trade, as illustrated by total trade-figures is as follows: the share of socialist countries and – among them – the Comecon countries dominated both imports (54.4%) and exports (58.6%). The share of capitalist countries was also significant: 38.5% and 30.8% respectively; and that of the developing countries was rather less at 7.1% and 10.6% respectively. The most significant trade partner of the country was the Soviet Union. Its share of imports was 30% and of exports 33.6%. This important predominance of the Soviet Union in the foreign trade of Hungary was based partly on economic factors and partly on a political–ideological basis. The second most im-

portant foreign trade partner of the country was the FRG, which had a 11.4% share of imports and 7.8% of exports.

In 1989, the last year of the era, as regards the imports by foreign partners, the share of Comecon was 39.6%, that of the EC countries 29.6% and of the EFTA countries 13.8% while the rest of the world in total had quite a low share (17%). The exports from countries shows a slightly different picture (Comecon: 41.8%, EC: 24.8%, EFTA: 10.7%, other: 22.7%.) As regards its regional structure – primarily due to the Soviet Union – the Hungarian export turnover was rather neighbour- country oriented and also Europe-centred.

Considering military systems the country was fully integrated into the structure of the Warsaw Treaty, effectively the military doctrine of the Soviet Union and therefore subject to it. The Hungarian National Army was in all respects (technical supply, strategic and operational planning) dependent on the Soviet Union. The military policies of Hungary were defined basically by its position within the territorial structure of the Warsaw Treaty and in its “enemy image” as well as by the Soviet geo-strategy. Within the alliance system Hungary was considered according to its strategic position as a Southwestern–European country. At the same time Hungary did not really belong to the front line of opposition to the economic and political systems of the West, it can be rather described as a “minor theatre of operations”.

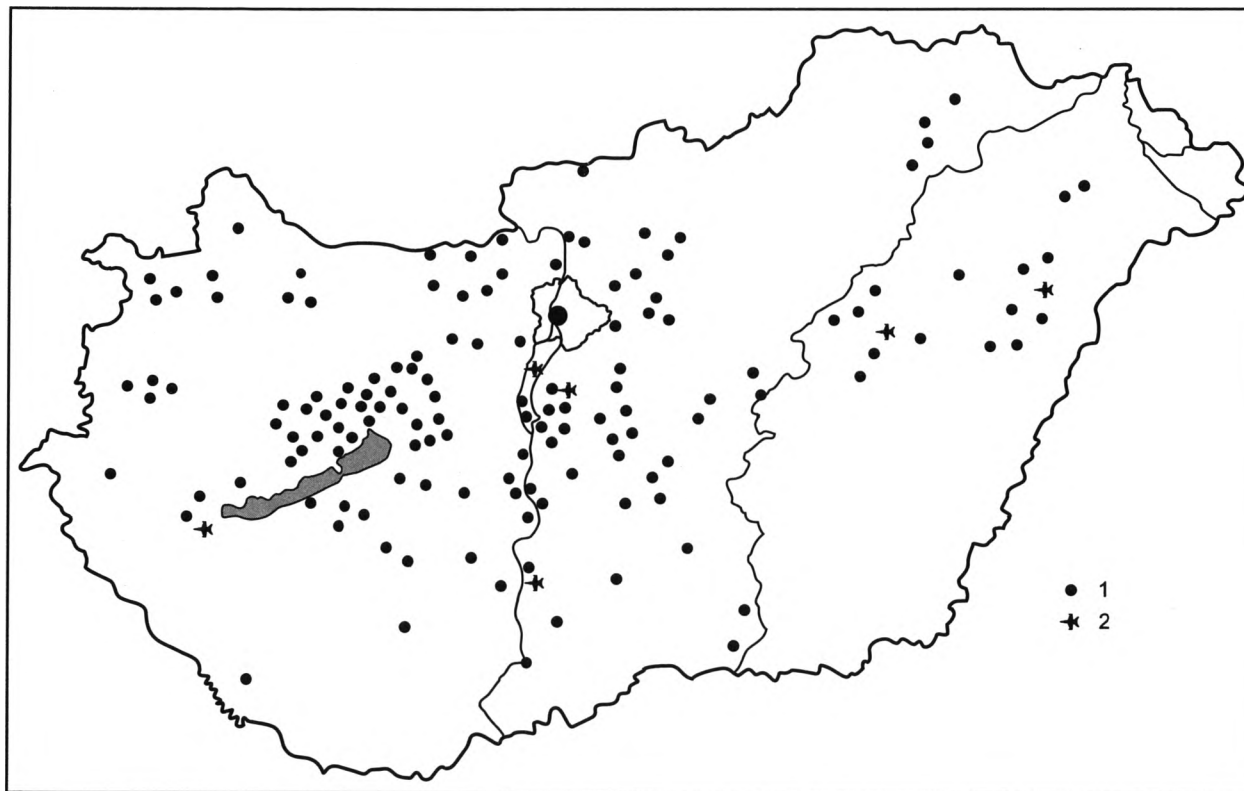
The stationing of the Soviet Southern Troops in Hungary meant not only an external but in some case also an internally oppressive function. The spatial location of the Soviet military bases (*Figure 2*) indicates clearly that it had a Western-directed, offensive, battle-order (external exertion). The other characteristic of troop-deployments was that they formed a belt around the capital city, Budapest (a potential internally oppressing function).

As regards its strengths the Hungarian army was larger but in terms of fire-power significantly weaker than the Soviet troops quartered in the country. Especially striking was the weakness and obsolescence of the Hungarian airforce in comparison to that of the Soviet army stationed in Hungary. The result was the effective defencelessness of the country and the powerlessness of the Hungarian army.

The military contacts remained steady until the moment of the systemic change. The so called “Friendship manoeuvre” took place in January 1988 with the participation of the Hungarian, Czechoslovak and Soviet corps. According to the new European political, safety and military policy agreements, Western observers viewed the whole course of the operation. In October 1988 the Military Council of the Armed Forces of the Warsaw Treaty member states was in session in Budapest and considered among other matters the possible consequences of scaling-down of military forces. Following the session – once again with the participation of Western observers – a Hungarian–Soviet manoeuvre was held.

Figure 2

Military bases of the Soviet army in Hungary, 1990



Key: 1 – settlements with military bases, 2 – airports with beton landing.

Mikhail Gorbachev reported at the plenary session of the United Nations in December 1988, that the Soviet Union had begun the retrenchment of its army corps in Hungary, Poland and Czechoslovakia. In November of 1989 the Ministers of Defence of the Warsaw Treaty countries discussed exclusively the topic of “sufficient defence” at their session held in Budapest. From this period on the opportunity was provided to reorganise the Warsaw Treaty as an organisation really for defence.

Within the frameworks of trust-enhancing European measures in January 1990 the Hungarian–Canadian “Open Air” air-force exercise was the first step in “opening of the air space of Hungary” for the pilots of a NATO member state.

Hungary – within its restricted possibilities – played a pioneer role in building East–West contacts. Hungary was – due to its geographical location and elementary economic difficulties – interested in the improvement of East–West contacts. In the period of tension between the Great Powers Hungary was striving not towards sharpening but rather lessening the tensions. Hungary received recognition for a foreign policy which was continuously conflict-moderating.

The Hungarian–American relationship was in almost all aspects cemented by the return of the Hungarian Holy Crown in 1978. The ups and downs of the Soviet–American relationship in the 1980s had had negative impacts on the Hungarian–American relationship, but no longer had a “marking character”.

In realising the importance of the European Community Hungary preceded the other socialist countries – apart from the GDR, which had a unique situation due to German internal trade. Hungary initiated negotiations – on a level of expertise – on the improvement of trade contacts between the country and the European Community. The enlarging EC gradually won a dominant place in Hungarian external trade. It was a primary interest of Hungary to develop and maintain bilateral contacts. In 1988 Hungary established diplomatic relations and signed a trade agreement with the EC. This agreement provided further opportunities for the development of trade contacts.

As regards the East–West contacts and neighbourhood relations the rapidly-developing Austro–Hungarian accord should be emphasised. These relationships, especially economic ones, started to develop dynamically. Through the introduction of a Hungarian passport, valid across the world, masses of Hungarian tourists set out for Austria, mainly on shopping excursions. On the other hand, Hungary was not allowed to step out of the security-frameworks of the “socialist bloc”. Therefore the elimination of the “iron curtain” could only have been completed at the very end of the era. In February 1989 the governments agreed to open the frontier, and Hungary’s technical isolation was dismantled within a couple of weeks.

Relationships with neighbouring countries, if investigated from the aspect of “statistical accessibility of the frontier”, illustrated a particular situation in the last year of socialist control. As regards the average length of border section per road, and the number of railroad border stations in 1988, we will find that the Austrian border was the most penetrable and the Soviet the least.

3 Process of systemic change

(Beginning with economic crisis, through social crisis,
to political systemic change)

The decade of the 1980s can be divided into two clearly separated periods around 1985 as a watershed. Before 1985, in the frameworks of a single party system not yet publicly questioned, the opinion of the political leadership was the effective executive control. (It was by that time possible for illegal movements to question many decisions, since the first volume of the samizdat periodical, the "Beszélő" or "Narrator" was published in 1982.)

In November 1981 the Hungarian government applied for membership of the International Monetary Fund and in the World Bank. We can consider this as an admission of economic difficulties and not as the first sign of a new political orientation. From this period on the economic situation and the solvency of the country received more public attention domestically and internationally.

The introduction of emergency measures in Poland and the debate around the consequences encouraged Hungarian intellectuals to evaluate the situation: the demand for "finlandisation" was formulated. At that time a wider analysis of the issue was not yet possible but unofficially the easing of Hungarian–Soviet relations gradually progressed.

At the Parliamentary elections in 1985, which were held under a new system, there were already 25 members elected, who were not running as candidates of the National Patriotic Front. 77% of the members of Parliament were still members of the Party, but the elections created a new, much more critical group.

The unofficial organisation of opposition forces was launched by the Monor session. The variety of programmes and ambitions was announced at the very beginning. After 1985 – parallel to the deepening of the economic crisis and an increase in political publicity – the reconsideration of the national issues (such as that of the Danube Power Plant) was begun. Also, interpretations and evaluations which questioned the official interpretation were considered and the process of public opposition countenanced.

From 1986 on, different alternative societies and organisations were founded – on a constitutional basis. Some of these organisations still accepted the defence shield offered by the National Patriotic Front (such as the Bajcsy-Zsilinszky Endre Friendly Society) but in the program declaration, draft radical demands were raised in regard to the international position of the country:

- A return to Europe, (to enable the Hungarian Nation to join the political, moral and economic community of the European nations and European culture, as a free and independent state),
- Central–European Integration, (the nations of the region shall establish of their own free will, on the basis of mutual advantage and without any exter-

nal intervention, their economic and political union, in order to enable a democratic solution to all kinds of nationality issues),

- A unified Hungarian nation, (all Hungarians – 16 million – are part of the unified Hungarian nation. The Hungarian government shall represent all Hungarians and Hungarian minorities at all international forums),
- An independent Hungary, (Hungary shall reconsider its system of international relationships established in the Stalin era on the basis of up-to-date national interests).

The different civic organisations gradually increased and movements (Hungarian Democratic Forum) and unions (Union of Young Democrats, Union of Free Democrats) appeared on the scene. These were not called parties although they effectively functioned thus; almost all of them focused the foreign policy targets of their programme drafts on creating independence for Hungary.

The Hungarian refugees arriving from Romania, the official minority policy of the Romanian government and the Romanian settlement programme generated demonstrations. These not only questioned the “allied” character of the relationship between the two countries, but also carried a gradually sharpening internal criticism of the Hungarian political system.

The Congress of the Hungarian Socialist Workers Party in 1988 introduced basic personal changes in the leadership of the HSWP, but in most debates it could not create agreement within the party. The party was in crisis. The reconsideration of the tragedy of 1956 as a popular revolt by Imre Pozsgay questioned the legitimacy, not only of the party, but also that of those who participated in its suppression. There were difficult debates unfolding, on both power and personality bases, in connection with these issues in society and also within the party.

The leading organs of the HSWP approved the introduction of the multi-party system in February 1989. This decision was already stretching the frameworks of the previous constitutional order. From this point on the establishment of a politically enforced, legally legitimated, real multi-party system emerged.

One of the essential issues of the party-political programmes and declarations published in 1989 was the reconsideration of the federal system of the country and an evaluation of its opportunities and constraints. All serious forces were confronted with the issue of the Warsaw Treaty and of Comecon. From a policy aspect most of the parties formulated, as a basic demand, the reform and reorganisation of these organisations; and as the maximal and optimal target the “approved” withdrawal of Hungary. In most of the political declarations, the affirmation of the neutrality of Hungary was declared. Several parties formulated their demands on the parallel disbanding of the Warsaw Treaty and NATO, with the establishment of a collective European defence system.

In July 1989 the National Round Table negotiations on the situation began and the future of the country considered. Peaceful transformation, with temporary agreements, was a gamble. During the negotiations internal structures were at the centre of the dispute, but also the new foreign policy orientation of the country was discussed.

With the exit-permission for East-German refugees in September the Hungarian government broke with socialist political solidarity. "The mass opening of the iron curtain" had an international impact, shaking the internal situation of the GDR and practically sealing the destiny of the country.

The Congress of HSWP held between 6–10 October dissolved itself without a legal successor, and the Hungarian Socialist Party was founded. The dissolution of the previous state party created a completely new situation. The HSP was forced into an open competition and in particular burdened with the political past of its leaders.

In the realm of foreign policy, international co-operation between Hungary, Yugoslavia, Italy and Austria was intensified. In November the neutral Austria, the non-allied Yugoslavia, the NATO member Italy and Hungary belonging to the Warsaw Treaty carried on high level consultations on the possibility of closer economic and political co-operation between the countries of the region.

Besides this initiative the fact must be mentioned that the Hungarian government handed in its the accession request to the European Committee. This decision clearly indicated a desire to adopt European democratic values.

In March 1990 the Hungarian and Soviet governments agreed upon the complete withdrawal of Soviet troops stationed in Hungary. Almost immediately after signing the agreement the withdrawal of the troops began. The commencement of the withdrawal was also a message for domestic politics, which was that the new Hungarian Socialist Party could re-establish the internal political order, and could represent successfully the foreign policy interests of the newly independent state.

The foreign policy orientation was also a central issue in the 1990 elections as well as the establishment of the neutrality of the country. Reviewing the foreign policy and alliance views of the different parties in detail we will find that: there was an agreement among the parties in the following:

- the independence of the country shall be re-established,
- the neutrality of the country shall be established,
- the country shall rejoin Europe.

In April, Hungary, Czechoslovakia and Poland carried on international negotiations, at prime ministerial level, on extending co-operation between the transforming democracies. In reality this was the beginning of the organisation of the so-called "Visegrád group". The basic objective of this organisation was to foster common attitudes and actions among the more developed and progressive countries of the Warsaw Treaty – potentially under the leadership of Poland.

4 Out of the Warsaw Treaty and Comecon – but to where? (The freedom of the grey zone)

The Hungarian Democratic Forum won the first plural parliamentary elections, but could not acquire an absolute majority. Immediately after its formation – but before the new government took up office – the new Parliament faced a reconsideration of the relation between Hungary and the Warsaw Treaty, and the necessity of consolidating its agenda. The Parliament rejected the possibility of a unilateral withdrawal and assigned to the new government the task of facilitating the withdrawal negotiations.

The foreign policy of the government programme led by the Hungarian Democratic Forum had a real policy agenda. The new government declared that it would respect previous international agreements, even though it set new objectives and priorities in accordance with the new political situation:

- A primary objective of the government was to accelerate the process of European integration. The preparation of the association agreement was a priority of the government programme.
- In order to establish wider regional contacts, the demand for co-operation between Central-European countries was declared.
- In comparison with the previous period, the attitude towards contact with the Hungarian minorities outside of the state borders basically changed. This fact significantly influenced the policy towards neighbouring countries, especially Romania.

In the formulation and implementation of foreign policy objectives, the new government sought continuity and parliamentary agreement.

The co-operation of the countries within the Adriatic/Danube region received a new emphasis. This specific “interbloc” formation played a significant role in maintaining the stability of the region and ensured direct Western political support of the democratic transformation.

Hungary joined EFTA, the European Community opened its embassy in Budapest and NATO suggested to Hungary – still a member of the Warsaw Treaty – to establish diplomatic contacts. This occurred between NATO and Hungary in July 1990 and was a kind of recognition and support of the new government and its foreign policy.

Hungary agreed to the withdrawal of the German Democratic Republic from the Warsaw Treaty. In terms of the reunification of Germany this withdrawal was in all aspects a logical step and reinforced the legal attitude of Hungary, namely that a withdrawal from the Treaty was possible. In October, the Hungarian government declared that the country wanted to secede from the military organisation of the Warsaw Treaty. (At that time the idea of a complete withdrawal was not yet raised).

The relationships of the country with NATO and the EC gradually strengthened. In reality it was not a "double water-bottle" policy but much more the search for new opportunities in a complicated internal and international situation. The United States but even Europe were not prepared for such a rapid and basic transformation of the Eastern countries.

The fact that Hungary could become a full member of the European Council meant a kind of European rapprochement and acknowledgement. The association agreement of the EC and Hungary (the European Agreement) reviewed the contact of both parties in a complex way and regulated the frameworks for further co-operation. This agreement became not only an orientation-marker but a structural matrix for the longer term.

In the framework of the Phare programme Hungary received some support. It was not the amount which was important but rather the opportunity to establish and develop contacts. The EC subsequently supported other programmes (between 1990 and 1998 Hungary received in total 683 million ECU support).

Within the neighbouring-country policy the Hungarian-Czechoslovakian relationship remained troubled by the issue of the Danube Power Plant. The Hungarian government cancelled the contract but Czechoslovakia continued construction on its side of the border, resulting in the diversion of the river and entrenching the conflicts.

The sharpening tensions in the Yugoslav region led to civil war and prejudiced the relationship between Hungary and Yugoslavia. The confrontation became especially heated over the Hungarian delivery of arms to Croatia. Hungary supported Croatian and Slovenian aspirations towards independence.

In January 1991 Hungary participated the "Desert Storm" manoeuvre against Iraq with a sanitary contingent; this operation was launched to end the occupation of Kuwait by Iraq. The action took place under the aegis of the United Nations but in reality through the utilisation of the military force of the United States. Hungary demonstrated its new Western scope of action and at the same time its loyalty and engagement to the Western values.

In February 1991 Czechoslovakia, Poland and Hungary signed a co-operation agreement. The co-operation of the Visegrád states was actually an effort to fill the political-power vacuum, but Poland was in all respect too weak to become an acknowledged power in the region. (New mechanisms of co-operation were created as the network of neighbouring countries expanded and the CEFTA free-trade zone was created in 1992.)

At the special meeting of the Political Negotiation Body of the Warsaw Treaty in Budapest on February 25th, the representatives agreed to scrap earlier military contracts. They declared that the military organisation of the WT would be abolished on the 31st March 1991. On June 19th the last Soviet soldier left the country. Through these measures the sovereignty of the country was re-established.

Hungary agreed June 28th 1991 to the elimination of Comecon and as a result the country's economic conditions were placed in a new context; not only in terms of the previous member states, but also regionally. A few days later an agreement was signed, to the effect that the whole Warsaw Treaty would be dissolved, not only its military organisation. On July 1st 1991, Hungary became a country independent from military blocs, and free also from economic integration and a foreign military presence.

Hungary acknowledged the sovereign independence of Croatia and Slovenia and formed diplomatic contacts with its new neighbours on 15th of January 1992, marking a change in regional policy. Hungary emphasised its neutrality in the Yugoslav crisis (especially because of the Hungarian minorities in the Voivodine) but it sympathised with the ambitions of Croatia and Slovenia and supported them as far as it could.

The Hungarian–Serb conflict was sharpened not only by this support but also because Hungary had joined the punitive sanctions introduced by the international community. In connection with the monitoring of the sanctions new levels were reached in integration with Western–European. (Hungary had significant financial disadvantages but important political advantages through the enforcement of these measures.)

The new Hungarian government wanted to arrange its relations with its neighbours and Soviet succession states through international agreements. These agreements contributed to the redrawing of contacts, but the Hungarian–Ukrainian contract led to an internal crisis of the governing coalition: the measure's passage through Parliament could only be achieved with the support of opposition votes.

Following the 1994 elections the socialist–liberal coalition was recognised by the political leaders of Western Europe; the Hungarian–Slovakian and Hungarian–Romanian basic agreements were elaborated and ratified, but at the same time both agreements were a focus of dispute within the country.

European processes became determinant for Hungary, beyond the increasing impacts of globalisation. In this respect joining the OECD 1996 was a significant step, since it meant that Hungary matched the internationally-acknowledged requirements of a market economy.

The new coalition completed the treaties with neighbouring countries, with the support and sometimes the firm insistence of the Euro–Atlantic countries.

5 On the way into NATO and the European Union

There is no obvious connection or mechanistic linkage between joining these two organisations. But it is clear that the double membership would in every respect strengthen Western contacts. Public opinion polls on accession showed slight differences from year to year; but in one respect they always represented the same aspiration, namely that there were few people not in favour of accession to both organisations.

5.1 On the way into the NATO

In connection with the preparation of NATO membership the Hungarian public was confronted with the results of earlier negative NATO propaganda. The Hungarian public had to be convinced that neutrality is no guarantee of national defence; also that in the long term, only an alliance with a new military-political union can guarantee that. As regards NATO membership, the parties of the extreme left and extreme right occasionally found themselves on a common platform, along with the different pacifist groups.

Hungarian political ambitions towards NATO were quite clear since the early 1990s but the receptiveness became always more dependent on the consideration of the NATO-Russia relationship, and became partly subject to "cost-benefit" analysis in Western Europe and also in the United States.

In the new European situation in 1995 the need for collective security and responsibility was raised at the same time (the establishment of the North-Atlantic Co-operation Council – NACC). There were efforts to establish the new system of Partnership for Peace (PfP) and the consideration of the extension of NATO.

The issue of Yugoslavia was a landmark in Hungarian-NATO relationships. At the end of 1995 the first corps of American soldiers operating within NATO arrived in Hungary: the Taszár air base played a significant role in NATO activities directed towards Bosnia (IFOR), in guaranteeing supplies for the troops and maintaining logistical contacts. In the region of South-Transdanubia a network of transportation was gradually established. This was of great support to the activities in Bosnia. The activities of the Hungarian technological corps and the experience of a fruitful co-operation significantly improved Hungary's chances of joining NATO.

In April 1996 a new period of the preparation of Hungary's NATO access began and the system of relationships between that organisation and Hungary deepened in several fields. The Hungarian ambitions towards accession enjoys the support of widening circles of NATO member states.

The decision of the American Congress in the middle of July 1996, approving 60 million US dollars for the preparation of NATO enlargement, and the definite nomination of the Czech Republic, Poland and Hungary as potential members, defined the membership of the enlarged organisation. NATO's Madrid Conference, in July 1997, finalised the invitation of the above three countries.

The arguments against, emphasising the island-like location of Hungary, having no common border with any of the NATO member states, were gradually relegated to the background and replaced by the analysis of "accessibility". In the interpretation of accessibility the Slovenian contact received favoured attention, since Slovenia also declared its ambitions to join. In the light of this it is understandable that Hungary will most probably be managed by Southern Headquarters of NATO.

In the Hungarian NATO referendum, on November 14th 1997, out of some 4 million persons (49% of citizens entitled to vote), 85% of the valid votes favoured accession and only 15% opposed it. Every party and grouping evaluated the referendum according to own interests. Some emphasised the low participation rate, while others argued against the high number of positive votes among the valid ones.

Most of the NATO member states ratified the document on the accession of Hungary by the summer of 1998. The process of ratification will be completed probably by the end of this year and Hungary will become full member state of the NATO in the spring 1999, in every respect.

Through joining, the country will be part of the Euro-Atlantic security and political system and will receive important responsibilities in the development of relationships with neighbouring countries, as an island-type border country. Another component of joining is how belonging to the Southern Wing of NATO and military involvement might influence Hungary's other contacts in the long term.

5.2 On the longer way into the European Union

Hungary's foreign economic relationships were gradually reorganised from 1990. The European Union became the dominant foreign trade partner and the determinant of the Hungarian economy (*Table 1*).

The Hungarian economy slowly became the most significant capital attraction zone of the region and some 14 billion USD active capital moved into the country in the 1990s. The Hungarian economy was in every respect integrated into the international processes of the market economy. In 1994 companies in foreign ownership already produced 39% of the Hungarian value-added market.

The European Committee passed at its Essen Conference an overall strategic preparation programme. The EU "White Book" on the preparation of the associated states in Central and Eastern Europe, published in 1995, formulates the strategic possibilities of the preparation for accession.

Hungary's preparation process for accession received a new impetus in 1996 through completing the EU questionnaire. This was an opportunity for reconsidering the situation and the country's compatibility, and to seek the necessary conclusions on both sides. The 23 chapters covered practically all of the problems of the country.

The establishment of the internal structure of the preparation for accession was accelerated, covering both central administration and the sectors directly involved in the harmonisation processes.

According to the European Agreement the free trade of industrial products between Hungary and the EU will be implemented by the end of the year 2000. From this point on the Hungarian industry will have to face European competition without restrictions.

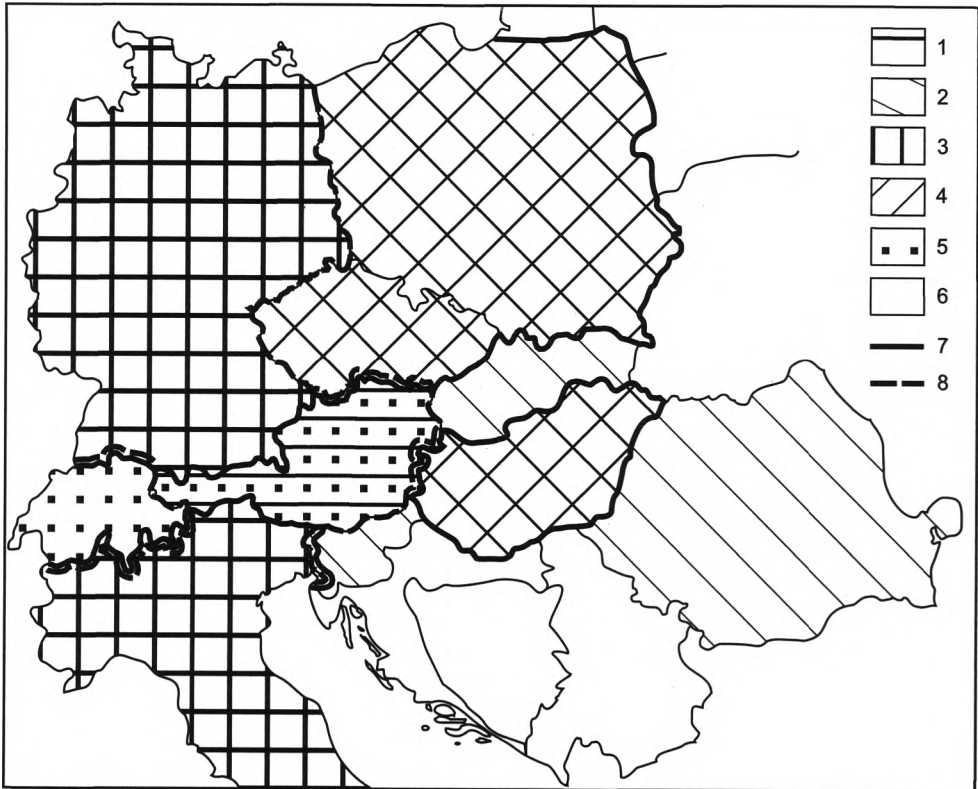
Table 1

External trade by groups of countries, million USD

Year	Developed countries	Developing countries	Central and Eastern European countries	Others	Total	Of which: European Union
<i>I m p o r t s</i>						
1985	3,091.6	380.2	4,277.4	97.1	7,846.3	1,711.3
1986	3,583.2	480.4	5,004.3	195.5	9,263.4	2,167.9
1987	3,946.9	490.4	4,766.8	243.8	9,447.9	2,367.9
1988	4,012.9	607.2	4,296.1	199.6	9,115.8	2,347.0
1989	4,379.9	528.1	3,771.0	140.2	8,819.2	2,557.1
1990	4,600.0	857.3	3,115.7	73.8	8,646.8	2,683.4
1991	7,577.4	900.1	2,685.5	219.1	11,382.1	4,681.8
1992	7,721.8	466.3	2,752.3	138.5	11,078.9	4,734.1
1993	8,133.4	547.2	3,619.8	229.9	12,530.3	5,023.7
1994	10,274.8	655.0	3,322.7	301.3	14,553.8	6,599.9
1995	10,893.0	856.2	3,538.9	178.2	15,466.3	9,514.7
1996	11,169.3	921.0	3,869.8	248.8	16,208.9	9,684.5
1996	12,954.6	1,091.3	3,851.0	248.8	18,143.7	11,301.3
1997	15,429.7	1,504.7	3,957.6	342.1	21,234.0	13,325.8
<i>E x p o r t s</i>						
1985	2,400.4	869.4	4,781.0	216.3	8,267.1	1,295.0
1986	2,669.7	695.9	5,220.3	263.9	8,849.8	1,533.6
1987	3,246.4	751.5	5,002.4	198.3	9,198.6	1,852.8
1988	3,900.0	836.1	4,681.7	281.3	9,699.1	2,189.7
1989	4,249.1	810.6	4,341.0	204.6	9,605.3	2,384.3
1990	5,197.4	780.0	3,460.3	149.9	9,587.6	3,088.7
1991	6,921.9	856.6	2,354.0	54.4	10,186.9	4,659.4
1992	7,627.8	570.7	2,460.6	46.0	10,705.1	5,326.7
1993	6,023.1	483.7	2,198.8	201.3	8,906.9	4,139.9
1994	7,707.8	419.9	2,366.0	207.1	10,700.8	5,456.6
1995	8,937.6	500.6	2,993.5	435.3	12,867.0	8,079.6
1996	9,187.1	475.7	3,082.7	399.2	13,144.7	8,250.0
1996	11,958.4	503.5	3,116.5	125.2	15,703.7	10,949.4
1997	14,801.5	509.4	3,659.0	130.0	19,099.9	13,602.3
<i>B a l a n c e</i>						
1985	-691.2	489.2	503.6	119.2	420.8	-416.3
1986	-913.5	215.5	216.0	68.4	-413.6	-634.3
1987	-700.5	261.1	235.6	-45.5	-249.3	-515.1
1988	-112.9	228.9	385.6	81.7	583.3	-157.3
1989	-130.8	282.5	570.0	64.4	786.1	-172.8
1990	597.4	-77.3	344.6	76.1	940.8	405.3
1991	-655.5	-43.5	-331.5	-164.7	-1,195.2	-22.4
1992	-94.0	104.4	-291.7	-92.5	-373.8	592.6
1993	-2,110.3	-63.5	-1,421.0	-28.6	-3,623.4	-883.8
1994	-2,567.0	-235.1	-956.7	-94.2	-3,853.0	-1,143.3
1995	-1,955.4	-355.6	-545.4	257.1	-2,599.3	-1,435.1
1996	-1,982.2	-445.3	-787.1	150.4	-3,064.2	-1,434.5
1996	-996.2	-587.3	-734.5	-121.6	-2,440.0	-351.9
1997	-628.2	-995.3	-298.5	-212.0	-2,134.1	276.5

Source: Statistical Yearbook of External Trade, 1997. Budapest. Központi Statisztikai Hivatal.

Figure 3

The new geopolitical situation of Hungary, 1998

Key: 1 – EU member, 2 – associated member of EU, 3 – NATO member, 4 – invited to NATO, 5 – neutral state, 6 – other countries, 7 – boundary of NATO after joining of Hungary, 8 – boundary of EU, 1998.

The final accession-date is an internal issue, subject to harmonisation minutiae; but also to the internal economic and political reforms of the European Union. Whether accession will actually take place in 2002 or later, the European Union is already the most important external, and in many aspects internal, factor in Hungarian economic development.

The geo-political situation of the country will primarily be influenced by the development of the EU's foreign and security policies. Hungary will probably remain an EU "hinterland" within the organisation for a while, and its borders will be different from Austrian and Slovenian EU external borders. Therefore Hungary may take a significant intermediate role towards its neighbouring countries.

6 Summary

Hungary probably went through the most protean period of its history between 1988 and 1998. At the beginning of the decade, the validity of the state socialist system was first questioned following internal and external changes; later, at the 1990 democratic plural elections, it was completely rejected and eliminated.

In the current global, political, and European rearrangements, the geopolitical situation of Hungary – partly as a result of internal aspirations and social legitimisation, partly in response to external encouragement – changed significantly. First the country was disbanded from its forced economic, social, political and military alliance commitments and after a short period of “not belonging to any alliance” Hungary joined NATO. This was legitimated by a referendum, with full public awareness and support. Although it may be a rather longer, thornier path, the march towards the European Union is in progress.

Hungary is changing from being the “most Western country of the East” to the “most Eastern country of the West”. It is the responsibility of Hungarian politics and society to optimise the opportunities offered by the new situation, and to make the most of the obvious and less obvious advantages and disadvantages.

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REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT IN HUNGARY

ILONA PÁL KOVÁCS

1 The legal frameworks for the territorial administrative system

The introduction of the Act on Local Governments, and thereby of the model for the local governmental type of regional control, was one of the most important political steps of the transformation and was significant from the constitutional point of view as well. The basic documents for local government administration are the relevant chapter of the Constitution and the Act on Local Governments. These provide the framework for government's activity, as related to local authorities. These frameworks undoubtedly limit the possibility of direct interference on the part of the government.

In 1990, the Parliament passed the Act on Local Governments by a two-third majority vote (the 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 organisation of Hungarian public administration. The right to local 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. In both the Act on Local Governments and the Constitution, it is conspicuous that the legislature strove to create the guarantees for the local governments' autonomy in terms of structure and decision-making. This is reflected by the enumeration of basic rights for local governments and the declaration of equity in terms of their legal standing. The relationship to the state as well as the detailed control of lawfulness with regulatory technique or philosophy seem to point to the fact that the essence of the local government model is autonomy and independence from state influence and hierarchy. Once the structure and labour guarantees thereof prevail, this model can provide many advantages. However, legislation and administration following the enactment of the Act on Local Governments pointed out that despite all the liberalism of the regulations, the model of local government with its legal guarantees of free decision-making does not ensure political and power decentralisation. The parliamentary and governmental decisions and measures of the past years in many respects run counter the logic of local government, despite the fact that from the point of view of the legal form, there has been no interference with the competencies and decisions of local governments.

The Act declares the relative autonomy of local governments, stating that decisions made on matters related to local community are final and can only be revised through lawful means. The provision 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. Although the Act on Local Governments stipulates that “local affairs can be delegated to other organisations only exceptionally”, no definition of “local affairs” or of its minimal content is provided. The Act grants local governments great freedom to establish organisations, pass decrees, join alliances for the protection of common interests and other types of association. The Act defines compulsory tasks for 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 states that the authority of the local governments can only be defined by act of Parliament.

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 favourable to local governments of settlements, versus regional governments or counties. 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 the counties, which were the only regional levels of the state. In the case of the Soviet-type council system, power was not divided between representation (local government) and public administration. The council system incorporated various tasks ranging from the safeguarding of interests to the supervision of companies and the management of services, placing all this under the control of representatives. The socialist state did not “distrust” the regional councils which were considered as both agency of the central state and representatives of the municipal interests, therefore it failed to develop a devolved 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 Soviet council system functioned not only in a unified, but also in a regionally integrated and concentrated organisation mechanism. This was true for governments in small villages, the 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. The council also allocated financial resources and was a major investor in the provision of services.

2 The characteristic features of the model

These were the facts which led 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 were four aspects in which the Hungarian system of local governments differ from West European trends:

2.1 Fragmented structure of municipalities

One is the aspiration of small villages to absolute local-rule and autonomy. These local authorities are highly fragmented. The 1,600 or so former local authorities were changed by more than 3,000 autonomous decision-makers in the wake of the Act on Local Governments. Over 35 % of the local authorities have less than 500 inhabitants. The average-sized local government has 3,400 inhabitants, which is below the European average. There are countries with an even more fragmented local authority system (for instance, France and Greece), and Austria shows

Table 1

Main data on local governments 1 January, 1998

Local governments	Local governments with single offices	Villages bound to notarial (common) districts	District (common) notary offices	Notarial-district seats located in		
				Cities	Large villages	Villages
3154	1759	1395	505	28	35	436

Source: A Magyar Köztársaság Helységnévkönyve, 1997. Budapest, Központi Statisztikai Hivatal.

Table 2

Settlement data sorted by administrative functions

Capital	Cities with county rank	Cities	Large villages	Villages
1	22	195	222	2691

Source: A Magyar Köztársaság Helységnévkönyve, 1997. Budapest, Központi Statisztikai Hivatal.

Table 3

*Number and population of settlements by population size-groups,
1 January, 1997*

Population size-gropus	Number of settlements	Percentage distribution of the population
– 499	1,009	2.7
500 – 999	703	5.1
1 000 – 1 999	652	9.2
2 000 – 4 999	491	14.4
5 000 – 9 999	135	9.2
10 000 – 49 999	116	22.4
50 000 – 99 999	11	7.0
100 000 – >	9	30.0
Total	3,126	100.0

Source: Területi Statisztikai Évkönyv, 1996. Budapest, Központi Statisztikai Hivatal.

figures similar to Hungary but the majority of the European countries operate local authorities which are much greater. The average size in Germany is 7,400, in Poland 15,800, in the Netherlands 23,200 and in Great Britain where village authorities were attached to the towns they were centred around, the average local government caters for a population of 129,000 (*Batley, R.–Stoker, G.* 1991). These high population figures are the result of the administrative contractions of the 1960s and 1970s, which aimed at making administration more efficient and economical. Today in Europe (in the Scandinavian countries, in Germany, in the Benelux countries and in Great Britain, too), there are far fewer local authorities than in 1950. It is only in Hungary that the 1950 state was re-established. The fact that the number of Hungarian local authorities doubled within one single year (1990) is unique in Europe. This disintegration process runs counter to European trends and continues even today; communities still detach themselves from the municipalities. Owing to this fragmentation, the operation of the administrative and institutional system is decidedly expensive and in many communities is unprofessional. The socio-psychological explanation for this disintegration prior to independence is understandable; it is not only in local politics that sentiments dominate rationality. Local authorities in some instances foster these ambitions through distributional and financial mechanism and do not try to channel local administration into reasonable frameworks by co-ordinative means. The institutional system of training and retraining of local authority staff has not been implemented to date, although this would have been highly necessary because of the transformation.

2.2 The weak meso level of local governments

The other characteristic of the Hungarian model is the loss of importance of regional government. 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 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 for the legitimisation of local governments. In the first election period county-level governments could be elected indirectly, through electors, which means that they have a secondary legitimisation derived from the local governments of the settlements. Although the county – in this interpretation – should have functioned as a representative of local governments, it was precisely its relationship to local governments that had not been defined properly. On the one hand, not all local governments were represented in the county assembly, and this was particularly true for counties with lots of tiny villages. On the other hand, the law makes no provisions for the direct relationship between the county and the local governments, taking great care, however, not to restrict the autonomy of the settlement in any way. In 1994 the Local Government Act modified the election system of county governments. The indirect, “more acceptable” system is not an optimal one and this will be explained later.
- The secondary importance of 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 county, but any local government can assume the same tasks by itself or in co-operation with another local government. It means that the functions and competencies of the counties can change in type and through time; continuous modifications depend on one-sided decisions made by the local governments.
- The third point is that activities at the county-level government are *ab ovo* restricted by the definition of the legal status of towns with county rank. The Parliament ruled on the institutionalisation of 23 towns of county rank in the 19 counties. Towns with county rank (i.e. all cities with a population of more than 50,000, and since 1994 all county seats regardless of their size of population) were given the right by the Act on Local Governments to undertake county-level competencies within their own geographic area. Towns with county rank do not have representation in the county assembly and there is no co-ordination among them. Thus, on the one hand, the county is functioning in the representation of small communities and towns; on the other hand, towns with county rank provide governmental functions simultaneously and this makes the administration of county-level services and the formulation of global developmental objectives for the entire county more difficult. Despite the lopsided opera-

tion of the counties, the government did not propose a clarification of the partnership. As a result of the division of interests within the local governmental system, the measures of centralisation and delegation of interests could be passed practically without any limitations.

2.3 An increasingly devolved administration

The strengthening of a devolved public administration took place mainly at the expense of the counties and the medium level of government. 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. The division of labour between local governments and state organisations and the regulation of the means of implementation of local government tasks was done for the most part by simple laws and governmental decrees; therefore, Parliament lost control and influence on the process. Although the government did not diminish the independence of decisional and organisational autonomy of local authorities, it continuously narrowed the scope of decision-making by taking over a significant part of local and regional public affairs. The unhealthy degree of this devolution can be explained in different ways. It is typical that central agencies would see centralisation as the ideal form for implementing different tasks. It is a Hungarian peculiarity that this centralisation tendency cannot be limited by the Constitution on public legal provisions, nor by the channels of interests of regional and local governments. Essentially, there is no public legal guarantee for state construction and operation progressing towards political decentralisation. Another hotbed of devolution is the structure and model of government, whereby individual branches represent a greater weight than the complex interests of the whole government. A blatant example of this is the fact that the ministries were provided with an unlimited right to create their own devolved sectoral structure subordinated to their organisational interests. Almost all the ministries made the most of this possibility. The dispersed structure was built first on the former county council administrative branches after local elections. In this way, land, labour, public health, consumer and fire control administration all fell under the auspices of relevant ministries. The role of former financial and planning departments was subordinated to the Ministry of Home Affairs and the Ministry of Finance (this includes regional service for information on public finance and public administration). Offices and agencies such as the compensation offices and property transfer committees, were set up to cater for temporary tasks. In the first four years after the systemic change, more than ten new state devolved organisation types were created, bringing the total number of state regional agency types up to almost 40, at local, county, and regional levels (*Figure 1*).

Figure 1

*Central and Regional Public Administration in Hungary in 1994***Ministries****Their regional organs
(in every county or region)**

- *Ministry of Home Affairs*

- Refugee Office
- Public Administration Office
- Financial and Administrative Information Service
- Fire Service

- *Ministry of Agriculture*

- Veterinary Service
- Institute for Species Experiments and Dairy Products
- Plant Sanitation
- Forest Inspector
- Land Office, Office for Agriculture

- *Ministry of Defense*

- *Ministry of Justice*

- *Ministry of Industry and Trade*

- Regional Offices of State Energy Security Supervisory Board
- Consumer Protection
- Office of Geology
- Office for Measure Calibrating
- Mining Office

- *Ministry of Environmental and Regional Development*

- Environmental Supervisory Office
- Directorate of Nature Conservation
- Directorate of National Parks
- Offices of Regional Chief Architect

- *Ministry of Transport, Communication and Water Conservancy*

- County Transport Supervisory Office
- Telecommunication Supervisory Offices
- Regional Water Management Directorates
- Public utilities, companies for road maintenance

- *Ministry of Foreign Affairs*

- *Ministry of Culture and Education*

- *Ministry of Labour*

- Supervisory Offices of Labour Security and Labour
- Labour Centre

- *Ministry of Public Welfare*

- Regional Public Health Service

- *Ministry of Finance*

- Directorate of Public Taxation and Control

- *Central Statistical Office*

- Directorate of Statistics

- *Economic Competition Office*

Note: In the figure, we do not show the central and regional organs of the Frontier Guards, the Police, penal authorities, the National Security Office (Ministry of Home Affairs) and the Customs Office (Ministry of Finance) as armed bodies.

When creating these organisations, the government was not forced to weigh whether it was financially or professionally feasible to set up a new organisation to care for a given system of tasks. Their argument was always on hand that on the basis of the legislation relating to county governments, there is no other way but creating a dispersed organisation since county governments could not undertake tasks which might create a hierarchy in their relationship relative to individual municipalities. Without going into the details of the shortcomings of the system, it is necessary to point out that the government made the most of the misconceived regulatory solutions of the Act on Local Governments and willingly decreased the competencies of the local governments in all the areas where the nature of the task would have favoured the competence of county governments. Some of the newly established devolved organisations turned out to be superfluous or dysfunctional very soon after their establishment. There is a great deal of parallel functioning and lack of co-ordination in the present regional administration, while important functions remained uncared for. It is especially in regional development and the administration of the labour market that the disadvantage of the bureaucratic and hierarchic state functioning and organisational model is disadvantageous compared to the local governmental model. These phenomena unambiguously proved the fact that when resuming office, the government did not have a clear concept of state construction or, if it did it, was unable to put it into practice.

If we examine a little more closely how powers are delegated, we find that decision-making authority has been moved upward in the hierarchy with complete disregard for local governments.

2.4 Lack of association among local governments

In spite of the fragmentation of municipalities, associations at a small region level were missing. 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 service 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 the areas created 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 our survey, 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 a recognition of mutual interests. The smaller villages located in the gravity zones preferred to find smaller decentralised areas as administrative partners. We have not discovered any association that would coordinate a whole gravity zone. Several associations have been established but they all focus on single issues only, like certain development investments, the improvement of 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 recognised in the Act on Local Governments and therefore they are considered legal entities, 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 development supply in the area. Future legislation should elaborate on the organisational structure, the guarantees for the safeguarding of the members' interests, the authorities to be delegated to the associations and potential cases for enforced association. Without such correct and clear legislation, local governments are naturally worried about losing their autonomy to an organisation that is capable of taking it away and therefore they fail to recognise the advantages or requirements of association.

It was not the government's responsibility that this disintegration process started. Rather, it was the consequence of the weaknesses of the Act on Local Governments as well as of the political pressure giving rise to disintegration behind the regulations of the act. The government viewed the disintegration processes rather passively. It should and probably could have done more in the interest of reasonable organisational integration. However, the former government should have been more assertive when promoting the spontaneous integration initiatives of the communities and should have recognised and accepted partners to the various integration of local governments, from the alliances in the small villages through the county and regional-level organisations, to the union of interests.

Recognition of the handicaps resulting from disintegration has been growing. Several ideas for reform had been formulated in the central government to reverse the present situation. The ministries of regional development and labour recognised and supported integration, primarily between smaller regions.

2.5 In summary

We can state that the Act on Local Governments was of tremendous importance in the construction of a democratic state structure. Local authorities were given a wide sphere of authority and autonomy and became, in this way, it was an important school of democratic political learning. Despite all its liberalism and wide responsibility, however, the Act was unable to guarantee the decentralisation of

state life and organisation. Thus local governments have not become a dominant element of regional administration.

On the whole, the Act can be rated as very progressive, with the caveat that in many aspects it only outlines the frame of operation, leaving the following out of consideration:

- In the division of functions, the border between the state and the local governments should have been made more unambiguous, as a protection against an inevitably expanding central authority. The Act on Local Governments created essentially only the framework which had to be filled by competencies and means of implementation by means of so-called simple laws and government decrees.
- 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 legal formality.
- Local societies and politicians have not been yet prepared for the liberty given to local governments, which inevitably leads to interference with functionality.

3 The government's control of regional development policy until 1994

The contradictory structure of the medium level, that is, the lack of regional local authorities, not only interfered with regional administration, but also contributed to the over-centralisation of the government's regional development activity. The government recognised the political importance of managing regional inequity, but

- was unable to formulate a consistent regional policy;
- did not clarify competencies within the government; and
- proposed a paternalistic regional development policy with unclear objectives.

Direct state interference had opened questions which are debated in the ministries as well as in professional and political circles. These questions included:

- whether regional development policy should encompass the whole country or only certain regions which are especially underdeveloped or are in crisis (and in the latter case, what is the basis for the definition of such regions);
- whether intervention should mean financing only or special regulatory methods as well;
- whether the emphasis should fall on the improvement of the economy or the enhancement of living standards or on efficiency or on equity;
- whether intervention should take place through local governments.

A consistent regional development policy of the government was also impeded by the fact that a number of branches interfered with local processes in a rather uncoordinated way. The competencies of regional development within the government were not clear. Regional development activity in most countries is unable to gain enough political weight to be undertaken by an independent ministry. In Hungary, this governmental activity had been divided for decades into community/local development and regional development, as a result of rivalries within the government. These two activities would have required very close co-ordination, as the government's regional development function and this was indicated by its name, too (Ministry of Environmental Protection and Regional Development). However, its weight within the government was rather small compared to the branch ministries as well as to the Ministry of Home Affairs, which supervises local authorities. Municipal and regional development activity is undertaken by almost all the branches in a dual organisation system.

- On the one hand, a number of ministries set up their own compartments of regional development, which launched tenders for targeted support for local authorities.
- The “second line” was the functioning of the county-level devolved organisations of the ministries. Regarding regional development, one type of devolved unit was particularly important. The role of the state commissioner has changed several times within the government's regional development activity, whose backbone was constituted by county programmes. Initially, there was only a clear attempt at excluding the county assemblies from the decision-making process, so one of the portfolios was entrusted with central management and a state commissioner was assigned to supervise the implementation. Later on, the state commissioners set up various committees and consultative forums (with no public legal control whatsoever) to legitimise their decisions.

The next stage was the establishment of different regional development councils, again with an uncertain legal background. The more the councils, the greater their variety; each showed a different organisational and functional format, since the relevant government decisions only provided for the necessity to set them up but gave no guidance as to their form.

In 1993, government policy became more transparent owing to the increasing significance and regulation of the Regional Development Fund. Parliament passed a resolution about the guidelines for regional development allocations and the eligibility of preferred regions. The government's explicit regional development policy was formulated essentially in the so-called county crisis handling programmes. The common feature of these programmes was that the government opened or closed the process with a special on-site session. This method followed misdi-

rected, paternalistic traditions. As we have mentioned, the county authorities were excluded from the preparation and implementation of the county programmes.

In financing regional and local development, the government's centralisation was extreme. Efficiency of financing regional and community development deteriorates with the dominance of targeted central support, the lack of co-ordination between the portfolios and the poor chances for regional partnerships to carry through their interests. The efficiency of regional development policy was deteriorating due to the fact that the objectives of social assistance, crisis management and economic development were entangled, so the level of efficiency in the utilisation of allocations was inadequate. However, these were objectives for spending public money rather than of development. The support of dynamic, innovative and enterprise-promoting centres, which would have a strong influence on the environment and would contribute to the country's economic growth, unfortunately did not feature among the objectives of regional development. It is natural that support should be extended to the poorest regions as an expression of solidarity and as a possible act of promoting the local economy instead of providing allocations on purely social grounds. However, it has to be seen clearly that the chances for economic progress in the most underdeveloped areas before the rest of the country achieves growth are very slim.

Although the resolution quoted above stipulated that "the Regional Development Fund's major task is the promotion of the renewal of the economic structure and the improvement of related infrastructure conditions", the Fund could only support a particular group of communities from a list drawn up by the government. According to the criteria of eligibility, it was depopulated and aging settlements with lands unsuitable for cultivation that were to be supported, thus the chance for economic development was discarded at the outset.

The Ministry of Environmental Protection and Regional Development tried to support the organisation of underdeveloped settlements into small areas in order to avoid the uncoordinated dispersion of aid. It was, however, not advantageous to exclude small and medium-sized towns from the process, as they have a natural organisational function. Small areas can hardly be defined without a centre. The government's experts apparently had not yet understood the new regional processes that had started (and that have been going on for twenty years in Western Europe), which will give rise to a regional organisation different from what we were used to in the past few decades and which will force the system of means and objectives of regional development policy to change.

The perspective of development was towards a decentralised and multisectoral model in which not only regional local governments but also other public bodies, direct administrative structures, businesses and civil sectors will find a place. At the same time, it was hoped that the initial processes transforming the borderline between the profit and non-profit sector will be bolstered.

4 The reform of the local government system in 1994

During the first election term of 1990–1994 small municipalities were especially granted a great deal from the government. However, along with a paternalistic treatment there appeared trends that would in the long-run be unsuccessful in the management of regional development problems, or regional differences in the supply of the population. Organisational disintegration, the deterioration of the professionalism of administration, the uniformity of infrastructural investments of the local governments, an over-generalised administrative devolution, and the unhealthy extent of central redistribution have become barriers in the exploitation of the advantages of real decentralisation, which is the great potential of the local government model.

The former government had realised the vacuum in the regional integration left by the fall of the counties, given the fact that the counties dropped out not only from the point of view of local governments, but also from the point of view of the central government as well. The lack of regional integrative organisation was especially disturbing in the government's operation because it coincided with the disintegration of local governmental structure as well.

Government experts considered it necessary to propose amendments to the Act on Local Governments to that effect. The government's programme for updating public administration also proposed the reassessment of the devolved organisational form. The significance of amending the Act on Local Governments has been reiterated by experts in the Ministry of Home Affairs, and proposed amendments have also been formulated.

4.1 A gradual integration within the system of local governments

The new government in 1994 tried to counteract one of the most contradictory processes politically by measures that suggested a cautious but evidently more up-to-date concept. The conditions for the establishment of new villages have been tightened and additional financial benefits were promised to local governments forming associations. In the wake of the establishment of small village local governments, it was necessary to form basic infrastructure. This admittedly brought about spectacular changes in the image of municipal local governments and came as a revelation to the local population. In the same small villages, the "enrichment of the public sector" was coupled with high unemployment and the shattering of the villages' economic basis. Construction on one side, demolition on the other; and which of the trends would be lasting, and how will they affect each other? What should state resources have been used for? How long can the local society of the villages be made to believe that the only way out of the crisis is autarchy and

autonomy, while the national scale strategy is the division of labour regulated by the market and administrative integration? Which is the better model for villages: traditionalism or modernisation? These questions are also inherent in amendments which allegedly aim at administrative rationality. It is a question of what economic management and development strategy will follow the rules indicating conceptual changes. Can the government consciously undertake measures within the framework of the “modernisation programme”, which will most probably be politically unpopular? In the 1995 budget, a special contingency provides funding for associations which serve for the maintenance of primary schools and the purchase of school buses. Government comments on the bankruptcy of local governments and also alludes to previous wasteful investment decisions. They admit that sources for funding the new institutions have petered out. The modification of the block grant system should also promote integration. These small signals forecast the integrative intention within the local government system, which, however, will probably meet considerable political opposition and resistance on the part of the local governments themselves. Nevertheless, the modernisation of the local government system in developing countries indicates that sooner or later structural reform or the generalisation of the associative system will be inevitable. The vacillation of the government, which has been experienced regarding other issues, may bar the way towards a more progressive regional and local development strategy when it comes to taking politically unpopular steps. The central government can encourage associations between the municipalities first of all by financial regulation because the most important part of the local budget comes from the central state, despite the proportion of local revenues having increased within local budgets. In 1997, the Parliament passed an Act on coalitions, but it did not achieve any significant results. Coalition still takes place on a voluntary basis with a low level of incentives. Non-administrative factors or regional development policy played a much greater role and this will be explained in the following part of our paper.

4.2 Ambiguities in the empowerment of county government

One of the most important changes to the local government system was the introduction of the direct election system of the county in order to strengthen the legitimacy of regional government. The establishment of two artificial “constituencies” per county, based on whether settlements have more or less than 10,000 inhabitants, circumvented the problem of area delineation within the county. At the same time it had nothing to do with interests within the county as it separated the town from its area with respect to linkage to representatives. This election system definitely contradicts the intentions formulated in the government programme and leaves the representative proportions within the county general assembly practically to sheer chance. While the technique of the election was be-

ing elaborated, the basic concept was forgotten whereby the government recognises movements of association in small areas, relying on them for regional policy. A positive legal dogmatic step was providing counties with the status of "regional government", as a result of which the concept of division of duties between the municipal and regional levels can be reassessed. Another sign towards rationalisation was that the chairperson of the county general assembly and the county chief administrator can in the future be vested with state administrative authority. According to the previous legal dogmatic concept, county governments could not assume duties which might create a hierarchy over municipal governments. This rigid rule was the pretext, between 1990–1994, for the establishment of the so-called devolved offices, i.e. the nationalisation of a significant part of regional duties. The government's objective to streamline and rationalise regional level state administration can, in this way, be realised even if state administrative tasks are relegated to the competence of the county governments.

4.3 Careful steps towards the integration of territorial state administration

After the big political debate on the "prefects", who symbolised the centralised state, the eight administrative regions of the Commissioners of the Republic were abolished and the title and the power of the former "commissioners" has been changed as well. In 1996, the government passed a bill on the reform of public administration. According to this programme, the regionally diffuse public administration must be rationalised and co-ordinated by the government offices in lieu of the former "commissioners". From a two-year perspective, it can be seen that the progress of reforms is very slow and some ministries have successfully resisted efforts at integration. Regional administration is still dispersed and over-sized. It can hardly be integrated by coordination centers working at county government offices.

5 The new regional policy and the new act on regional development

The new government programme announced a new direction to regional policy. The main purpose was to join different branches in economic and regional policy; to harmonise the environmental, labour-market, infrastructure, housing and regional policies; and to concentrate on local resources and needs. These trends involved the necessity of decentralisation in public administration and a more flexible management of regional policy to establish partnerships with social and private actors. The failures of the former regional policy were due to the centralised administrative system which neglected local actors in decisions on regional development. From the point of regional power, besides the Act on Local

Governments and the reform of the system of state administration, the most important and maybe most ambiguous step was the passing of the Act on Regional Development in 1996.

Different political and professional forums had various demands regarding this slowly evolving Act, whose requirements also appeared in its regulating principles:

- The government intended to create the foundations of a single regional policy which operates by common rules, has a concept and covers the whole of the country – the principle of programming.
- Developed regions, in the name of efficiency, expected to get supplementary support for their further development – the principle of innovation and complementarity.
- Crisis regions, on the other hand, expected the government to pay most of its attention to them – the principle of concentration.
- The local governments of the small settlements were hoping that they would remain the beneficiaries of the grants – the principle of solidarity.
- The economic actors wanted to join as partners into shaping and financing development policy – the principle of partnership.
- The county governments, with the slogan of decentralisation, required the expansion of their own competences and resources – the principle of subsidiarity and decentralisation.

Only time will tell whether the Act is able or not to meet all the requirements through its principles and institutions. Those who were really disappointed when the Act was passed were the county governments. The county governments expected in vain the Act on Regional Development to arrange what only a norm of general political value, the Constitution and the Act on Local Governments, could arrange. The persisting uncertainty about the decentralisation of authority and the lack of trust towards county governments had their mark on the regulation on regional policy as well. Although the government had realised the advantages of decentralisation, it had been reluctant to share its authority in regional policy with a directly elected county government. The legislature tried to eliminate this contradiction by introducing a special institution: the so-called development councils (*Figure 2*). These partnership institutions, well-known in Western Europe, are established to integrate the efforts of local governments and economic actors for the development of the regions. In some cases, they are even capable of working out common development programmes and to accumulate resources for the implementation of the programmes, but they are unable to substitute regionally elected governments that have political legitimacy and are founded on the principle of representation.

According to the law, is very difficult to define the nature of this development council, but some dangers could have already been seen.

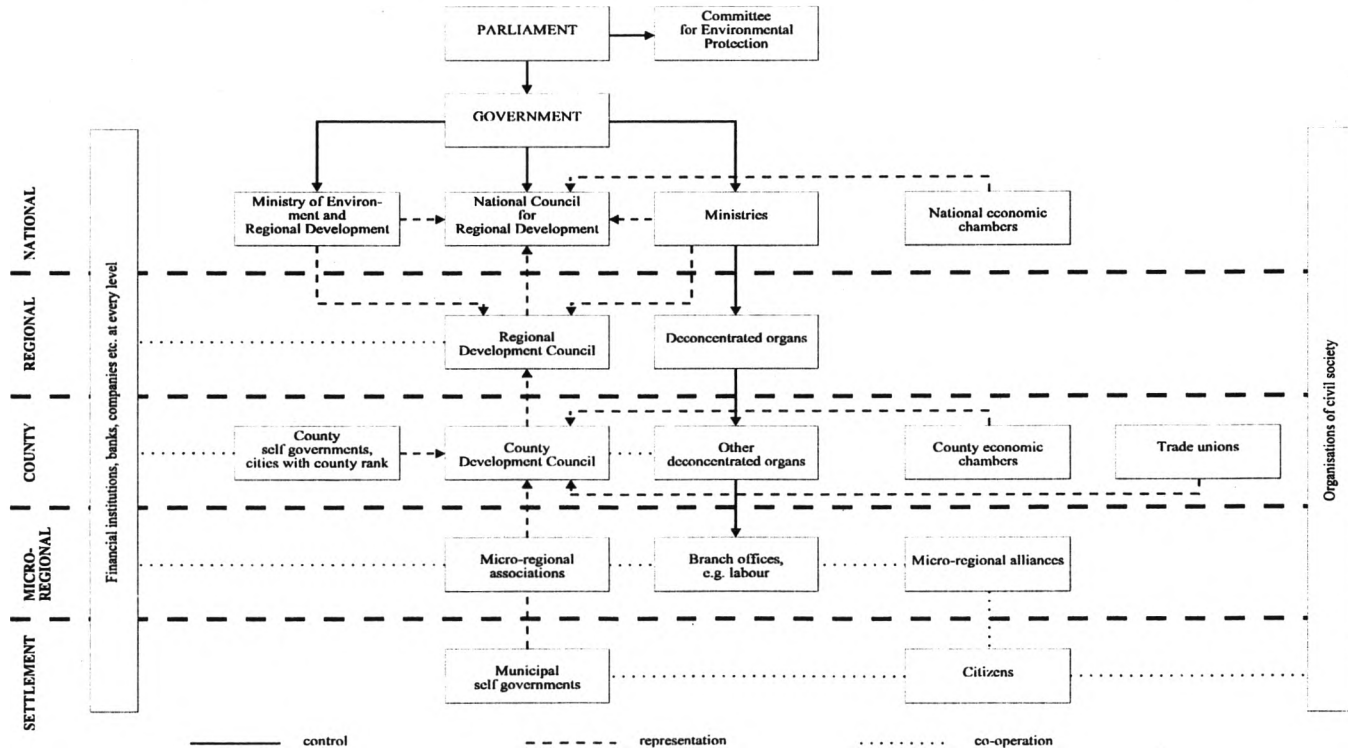
Figure 2

The key organisations of regional development in Hungary after the legislation of the Act on Regional Policy in 1996

MARKET SECTOR

PUBLIC SECTOR

NON-PROFIT, CIVIL SECTOR



- First of all the composition of this council is worth examining, which shows its tripartite or corporative character. The county development councils consist of one representative of the county assembly, one representative of the city with county rank, representatives of the associations of municipalities in smaller areas within the county, fixed in number by the law, one representative for employers (chambers of commerce) and two for employees (trade unions), and one representative for the Ministry of Environmental Protection and Regional Policy. The composition of the councils is more or less suitable for the harmonisation of the activities of concerned actors on the principle of partnership, but the act authorised these corporate-type organisations with much more authority and competence.
- The county development councils decide upon the development concepts of the counties and are entitled to distribute state funds through an application system. By these competences, we can forecast that the county development councils will become more powerful organs than the directly elected general assemblies of the counties.
- Another special feature of the Act is the fact that while it announced the requirements of compatibility with the European Union so that we should be able to join the so-called NUTS system of the EU, it was not able to launch and amplify the formation process of regions bigger than the counties. The Act made the counties the dominant units of regional development and although it provided a possibility for the creation of regions bigger than them, it only made this compulsory in two regions, in the agglomeration of the capital city and in the Lake Balaton region. The fundamental reason for the hesitation about the regions was the fact that in regionalisation not only political power issues, but also the possible geographical borders are uncertain.

The National Development Concept of Hungary delimited the macro-regions, especially taking regional development needs into consideration. These seven statistical macro-regions (NUTS 2) have hardly any resources and institutional background yet at their disposal and their functions are not clear. This is because according to present rules, county governments can transfer liabilities to regional governments on a voluntary basis. Moreover, the Act does not stipulate that regional councils must be based on delimited statistical regions. Thus, the spatial structure of statistical data collection and of actual development decisions can practically function separately.

In summary, we can say that the problem of the division of territorial authority has not been solved yet since the systemic change; the meso-level, as it has been cleverly stated, is “floating”, and neither professional nor political answers can be given to the following questions:

- Do we really want to decentralise power in this country where centralisation has been traditional?
- What tasks do we want the missing medium level to provide for?
- How many territorial levels should exist?
- What would be the geographical borders for these new spatial subdivisions?

6 Constitution-making – the last opportunity?

6.1 Political background

The legal reform of 1989 formally took place within the framework of the old constitution, although practically not a line of the old text of the constitution remained the same after the modification. The acceptance of the new constitution is not necessary primarily because it needs significant revisions in its principles and institutions but because, on the one hand, the text needs more details and corrections in a professional sense and on the other hand, the acceptance of the new constitution could symbolise the fact that the period of the systemic change is slowly coming to an end.

Parties and professionals have been struggling with the concept of the new constitution for years now and a full consensus in matters of text seems to be very hard to achieve. After this, it is understandable that, among other things, the future of the counties, more exactly the medium level, is a subject of significant debates. Although these debates seem to be about whether counties, city-counties or regions are the regional category of the future, the issue is more difficult than that. It is whether a decentralised or a centralised state structure should or must be created for the purpose of joining the EU. As we can see, the idea of federalism does not even occur to the bravest reformers, which is understandable as the spatial structure, ethnic composition and size of Hungary does not require a federal arrangement. Everybody seems to agree with the purpose of decentralisation, as it would be arrogant for the central authority to narrow-mindedly reinforce its own powers. Yet, if we take a closer look at those concerned, we find that those who have objections are more numerous than those in favour of decentralisation:

- We cannot expect any politician in central government to support wholeheartedly the restriction of their own power through a regional level which they would have much less influence on.
- The local governments who have just had a taste of freedom are very distrustful of having a local government defined from “above”.
- Most citizens cannot see why another bureaucratic tier that spends more of their taxes should be necessary.
- The technocrats in public administration might accept that regional level administration and coordination are necessary, but they are definitely reluc-

tant to let the non-professional representatives of a democratically elected political body interfere in professional issues.

It is thus not at all easy to achieve decentralisation with the mere start of constitution-making, as the legal freedom of the settlements, however uncomfortable to say this, is not able to guarantee in itself the decentralisation of the system. The Hungarian Act on Local Governments, which is very liberal in a legal sense, was not able to guarantee the spatial decentralisation of authority. With a bit of cynicism, we can say that the government, supporting the needs of the settlements for autonomy and autarchy, applied the principle of “divide et impera”, as the (many times contrary) interests of the 3,200 settlements can be easily tackled without spatial integration. Still, the strengthening of the regional government tier is not only in the interest of settlements, but also in that of the government, as

- central decision-making is not able to get sufficient information without regional partners;
- the bureaucratic and centralising state administration is not able to get social support for its decisions;
- the centralised, bureaucratic and uniform decision-making system is not able to mobilise local resources for national priorities;
- a more elaborate decisional structure is more flexible and better at adapting to changing circumstances;
- a centralised system has significantly weaker connections with society and is less democratic, which in turn jeopardises its legitimacy.

All these arguments, however, are insufficient for settling the debate over the counties, eliminating centralising trends and weakening distrust and prejudices.

6.2 A question of county size

A characteristic feature of the debate over the counties in the past few years is the fact that it often appears as a merely regional organisational issue, covering real political and power relations. The “anti-county group” most of the time does not argue any more that the local governments are able to provide for all local functions and that thereby the medium level is unnecessary. They argue instead that the millennium-old counties are not capable any more of carrying out medium level tasks. Opinions differ, however, when it comes to whether they are too small or too big. The answer evidently depends on what tasks we want to grant the medium level

- The “city-county” alternative: following the systemic change, the independence of the settlements became an ultimate political interest and the greatest achievement of the system of local governments. Naturally, the favouring of the

independence of the settlements, the *l'art pour l'art* "freedom", could not stand long against proficiency and efficiency. It had to be realised that a system fragmented into 3,200 autonomous decisionmakers is in constant struggle with malfunction. The point of the model proposing the so-called city-counties against the counties is just that the administrations of the settlements will be able to carry out their administrative and service functions in cooperation with the cities. The notion of cities cooperating with their environs is of course not new either in literature or in the history of public administration in Hungary. The districts have been functioning for centuries. In their scope they are very similar to the proposed city-counties, but the districts, with the exception of a short period between 1954–1971, have never had representative content; thus they have never been local but rather county administrative units. In 1984, the system of so-called urban areas was introduced to replace the districts, but these units have never had a wide range of functions and representation either. Public administration building on urban attraction zones responds to the need to provide services for the population and manage official affairs in geographical vicinity. What is more, these tasks appear in the urban attraction zone in close correlation to each other. I do think, however, that this realistic need does not necessarily call for the drawing of new administrative borders: many more flexible associations of concerned local governments are suitable for carrying out common tasks and coordination. The urban attraction zones are not alternatives but complements to the counties, the organisation of which in an associate form is an urgent task for public administration.

- Regions above or instead of the counties: historically, it can be seen that regional (larger than county) divisions have no traditions in Hungary. When any attempt was made to introduce a regional division different from the counties, the motive was always to break down the national independence opposition and to empty the county level of any political content, i.e. centralisation. It could also be observed that none of the regionalisation attempts proved to be successful; the county subdivisions survived all attacks. Behind the debates over the counties in recent years, we can feel the distrust of government authority and governmental reluctance to make the counties too powerful. Behind the "Europe of the Regions" slogan, there is nothing more in some cases but the mere rejection of the counties. Still, there is quite a confusion concerning the number and borders of the regions. In addition, many think that the needs of regional developments for frameworks bigger than the county units does not yet make it necessary that the regions become general political-administrative units, so they do not have to replace the counties. Naturally, without authority and political significance, it cannot be decided how many levels are necessary and whether regions should be organised above or instead of the counties.

6.3 A careful scenario

By the comprehensive amendment and reform of the local government, of the regional administrative system and the legislation of regional policy, the Hungarian state-development process was pushed towards decentralisation between 1994–98. This will, in the longer run, provide local governments with more favourable conditions and scope of movement than the former paternalistic and centralising government policy. In the course of budgetary reform, competencies and responsibilities of both the state and the local governments should be defined, as should the sources that cover the duties of the state relative to citizens, irrespective of which municipality they live in; and the tasks that the state delegates, “contracts out” to the local governments. In case the local governments can separate the pre-determined and free “sectors” in terms of both duties and sources, the responsibility of commissioner and commissioned at the level of specific decisions of supply can equally be separated. In contrast, if the state does not venture to clarify responsibilities when transforming the system of public funds, it is to be feared that central and local public institutional sectors protecting their own existence and rights will win, playing both the central state and the local governments against one another.

In summary, it can be said that the conceptual steps of the government were favourable from the point of view of modernisation, rationalisation, democratic structure, increasing political weight and the real decentralisation of power. At the same time, specific techniques and the actual measures of the government were not always unambiguous; political compromises and ministerial branch aspirations were constant sources of danger which can deteriorate the prospect for the implementation of the original ideas. The biggest barrier of actual decentralisation and the expansion of movement possibility for local governments is the state of the economy and the budget, or the dependency of local governments on central allocations.

The effectiveness of the new order of regional policy, the advantages of decentralisation of planning and decision-making on regional development are connected to the general trends of public administration and governmental policy. We can say that the prospects for a successful regional policy depends on the success of the decentralisation process and economic development.

After the government change in 1998, it is still difficult to forecast the future of regional administration, as well as the prospect for the passing of a new constitution.

In the present state of the debate, it is hard to make any predictions, since regionalisation seems to be lacking both in sufficient professional arguments and foundations and in a unified political will. Furthermore, the very important factor

Table 4

Local government budgets as % of total incomes

Incomes	1993	1994	1995	1996	1997
Beneficial income total	17.6	14.3	16.0	19.4	19.3
From the foregoing:					
Duties	1.7	1.2	1.5	1.4	1.3
Local taxes	4.5	4.1	3.9	7.7	8.0
Outgoing income total	8.5	9.6	13.0	11.5	13.8
From the foregoing:					
Personal income tax	8.1	9.2	12.6	10.7	13.0
Car tax	0.4	0.4	0.4	0.7	0.8
Beneficial, running outgoing incomes total	26.1	23.9	29.1	30.9	33.1
Accumulation and capital income total	8.1	10.0	9.4	9.7	8.6
State grants and subsidies total	42.6	44.3	41.3	35.6	34.7
From the foregoing:					
Normative state grants	35.6	33.2	31.3	24.6	24.6
Designated and targeted subsidies	3.0	5.0	4.5	3.2	3.7
Personal income tax contribution	1.1	1.0			
Social Security funds	15.2	11.5	13.3	16.0	16.2
Other funds, repayments, bond repayment	3.8	1.7	2.8	3.9	3.4
Credit, bond incomes	4.2	8.6	4.0	3.9	4.0
Annual income total	100.0	100.0	100.0	100.0	100.0

Source: Kálmánné Csán, Zs.–Kovács, Á., 1995. 1. 20. p.; Varga, S., 1997. 1. pp. 29–31.

of regional identity is absent. This is especially important, of course, if regions are organised as political units functioning on the principle of representation. It is also a fact that in regional development policy that the cooperation of counties at a regional level is increasingly intensive.

It would already be a giant step forward if constitution-making opened the gates for a future regionalisation or for a significant county reform. Regionalisation is thus a longer process during which the following steps are necessary:

- 1) Which functions require regional units bigger than the counties must be defined. For the time being, it is certain programmes and tasks for regional development that require a regional scale, but we can also consider the possibility for regionalising environmental protection and tourism.
- 2) After the clarification of functions, decisions must be made whether these functions require a new regional level with general authority, whether this level will be instead of or above the counties and whether smaller regional units below the counties will be formed or not.
- 3) Following the above, we can model what legal type of region is necessary:
 - an administrative office controlled by the government,
 - special delegated organs with coordinating authority,

- associations of local governments,
 - some kind of corporation,
 - a directly elected government with strong authority
 - a “member state”.
- 4) Having settled the substance and number of levels, geographical alternatives can be worked out.
- 5) Following the scientific elaboration of reform alternatives, a public consensus must be achieved for the decision, as I am convinced that the regional division of authority cannot be a home affair neither of the narrow professional sphere nor of the government alone. That is why the gradual introduction and the conscious nourishment of regional identity are especially important.

As it can be seen from the above tasks, the implementation will take time. A hastily made, badly prepared and artificial regionalisation may have the same fate as former reforms had. In addition, it would endanger the stability of the authority of governments already struggling with a host of social and economic problems. The most essential issue is not whether counties or regions bigger than the counties should constitute the sub-national level. The primary task is to get rid of the traditions of state centralisation and formulate a political will for the decentralisation of authority.

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CO-OPERATION AMONG LOCAL GOVERNMENTS AS THE FOUNDATION FOR REGIONAL SUBDIVISION*

EDIT PFEIL

1 Background to the local governmental system in Hungary

When evaluating the present regional system of public administration in Hungary, our point of reference is the Act on Local Governments, which was enacted in 1990. It was an important political decision, which, for the first time among East Central European countries, created a local governmental structure built on the principle of subsidiarity, which is considered up-to-date in Europe. This brought an end to the often criticised tendency of the socialist era, village integration. This integration was replaced by the municipalities' efforts to gain autonomy and by the fragmentation of public administration. After the systemic change, 3,092 municipalities were established, of which 2,915 were villages and 177 urban municipalities. The number of counties, and thus county governments, is presently 19.

According to the Constitution, the national territory is divided into the capital city, counties, towns and villages. Each regional unit has a local government. The basic elements of the administrative structure are municipalities, which is well reflected by the presence of the single-tiered local governmental system, i.e. the fact that the Act referred to the governments of villages, towns and counties by the common name of local government in 1990. As a negation of the former Soviet-type council system, basically for political reasons, the Act did not accept the spatial character of the county governments. A basic principle of the regulation was *that the county and local governments have a co-ordinative relationship and that no unilateral dependence is to occur.*

Legislators regulated the local governments with a liberalism unmatched in other European countries, which is best manifested by the fact that the rights of local governance lie with the community of the voters in the given settlements. This means that local government, according to the Act's wording, asserts the principle of people's rule and executes the local public's will. Local government rights are equal for all municipalities. The matters for which the local governments are re-

* The study was conducted according to the framework of OTKA research, No. T-23003.

sponsible are local public affairs defined by a general clause. Their protection and unlimited nature is safeguarded by the passage of the Act, which allows the transfer of local public affairs to the competence to other organs only in exceptional cases. In local public affairs, local governments can act at their own discretion, within the legal framework. The Act on Local Governments lists those public services which are to be carried out by local governments, with the exception that *local governments themselves can decide which tasks to carry out and to what extent*. The regulation of the competence of local governments is completed by the Act's differentiation between obligatory and optional tasks. At the same time, if local governments fail to fulfill their itemised obligatory tasks, there are no legal consequences, as the body which is responsible for the legal supervision of local governments, the office for public administration, does not have the licence to substitute local governments activity through supervisory measures. The decisions of the local governments can only be revised by the Constitutional Court or other courts and only in case of grievance. The competence of the office of public administration only covers the right to order the body of representatives to stop the grievance. What has been said so far also means that the local governmental system, in contrast to the ones prevalent in Western Europe, does not distinguish between local government and the state tasks. This also means that the different levels of the concepts of independence of execution and obligation of execution cannot be applied in the case of the itemised tasks. This makes it extremely difficult for the state to influence the operation of the municipalities and the creation of public administration built on professional and uniform principles.

We can thus say that the basic rights of villages and urban municipalities are the same, while their obligations may differ as a consequence of the Act assigning more tasks and responsibilities to those municipalities having a larger population. So far, the legislature has very rarely used the possibility of allocating responsibilities in a differentiated way and this for only certain types of tasks (e.g. social affairs, authorities of the boards of housing, maintenance of fire brigade etc.).

The system of local governments *belongs to small-scale structures with wide responsibilities, which focus above all on the community value of municipalities*. In 1990, the principle of one settlement one municipality was asserted. The Act on Local Governments accepted the right of all villages and towns to local governance. There were no criteria at this time for becoming a municipality. Beyond this, the regulation made it easy for the settlements that had been forced to unite formerly to re-gain their independence and for the separate parts of settlement to transform themselves into an independent new settlement. Excluding a new district in Budapest, during the first five years of the local governmental system, 68 new villages were established, that is, *the number of the primary units of public administration increased*. The reason for this is, among other things, the extreme liberalism of the Act when defining the criteria for founding a new village: the Act

required the ability to practice basic local governmental rights and fulfill obligatory tasks, i.e. the provision for the established local public services. At least the first four years of primary school and medical surgery were to be included. This regulation stimulated a process of disintegration, which induced new developments in the villages concerned. Developments were not always practical, but they were preferred by the central support system.

Finally, in 1994, the Parliament made the criteria more rigorous and the preliminary condition for founding a village was a population of over 300 inhabitants – so the limit was very low. Since then, the Act has required both existing and recently established villages to meet the financial conditions of their operation, without any supplementary support. We have to mention, however, that the process of village founding does not exclusively remedy the problems originating from the integration of villages into the council system, which accompanied the declaration of certain settlements as towns or large villages. Between 1924 and 1945, more than 200 village unifications had taken place.

On 1 January, 1997, we find 2,921 villages and 206 towns within the national territory. The average population of a village, the basic unit of public administration, was 1,295 people. These figures are more meaningful when compared to the figures of other countries in Europe (*Table 1*). Naturally, size differences among the municipalities are great within individual states, but we can still see that Hungary is more similar to local governmental structures of South European countries, which avoided large-scale administrative reforms. Similarly, some of the former socialist countries of Central and Eastern Europe conserved their previous, historical subdivision into large numbers of small villages (e.g. the Czech Republic, Slovakia and Poland). These countries, focusing on political and community characteristics of the municipalities, tried to comply with decentralisation and efficiency requirements concomitant with the development processes of 20th century welfare states. The implementation of this primary principle demands the establishment of single- and multi-purpose associations, different integrational forms of the municipalities and the operation of a strong lower or upper medium level. The latter is justified by the organisation of secondary public services, which need a larger area (*Marcou, G.–Verebélyi, I. eds. 1993*).

The situation in Hungary is still peculiar in light of the above-mentioned processes, as the functioning of both safeguarding elements is problematic. The result of the creation of administrative districts carried out in the 1960s and 1970s, the common councils, were eliminated with a single decision of Parliament in 1990, and the municipal system of a large number of small villages was restored. The lower medium level, the districts, which could have been a counter-balance against the fragmentation of public administration, had already been eliminated during the former political system. The upper medium level, the counties, can only fulfill their roles inefficiently.

Table 1

Size and population of local authorities

Country	Average population of elementary units (approximate)	Number of elementary units	
<i>The South</i>			
France	1,500	36,000	(approx.)
Greece	1,600	6,036	
Luxembourg	2,905	126	
Austria	3,000	2,417	
Spain	4,700	8,049	
Italy	6,800	8,000	(approx.)
Fed. Republic of Germany	7,240	8,400	(approx.)
Portugal	34,180	275	
<i>The North</i>			
Norway	9,145	454	
Finland	10,646	461	
Belgium	16,740	589	(approx.)
The Netherlands	17,860	800	
Denmark	18,500	276	
Sweden	30,000	282	
<i>The Islands</i>			
Iceland	1,100	222	
Ireland	41,910	92	
Northern Ireland	60,480	26	
Wales	75,870	37	
Scotland	91,620	56	
England	127,000	365	

Source: Norton, A. 1991: *Western European Local Government in Comparative Perspective*. p 31.

The legal status of county governments during the last eight years can be divided into two periods. The first one started in 1990 and lasted until the amendment of the Act on Local Governments in 1994, when even the existence of the counties was questioned. The other period is the one following 1994. In 1990, a political decision was made to weaken the counties that formerly had possessed resource-distributing functions and served the central authority. The counties were defined as local governments. The existence of the counties was linked to the maintenance of institutions providing services for the population of larger areas. For four years they only had secondary legitimacy, as their representatives were delegated by the municipalities. In the background, we find the effort to prevent the counties in any way from getting into a higher hierarchical position relative to the municipalities, even in the form of official administrative procedure.

As a result of the continuous controversy accompanying the institution of the counties, the amendment of the Act in 1994 above all brought a change for the counties in two respects. On the one hand, they received strong political legitimacy through the introduction of direct elections and, on the other hand, *the Act raised them to the level of regional governments*. Nevertheless, they could not become regional counter-balances of central authority, as their tasks and competences did not change significantly (Pál Kovács, I. 1995). The legislator did not provide them with the means to practise their new functions and they could not assume responsibility for regional development. According to the opinions of some parties, this latter task would have given the counties the opportunity to get into a higher hierarchical position relative to the municipalities.

An extreme interpretation of the principle of subsidiarity and the almost limitless authority of the municipalities in managing their local public affairs resulted in the birth of a disintegrated public administration, operating with some 3000 local decision-makers. The organisation of local governmental services fell victim to the principle of equalisation of municipal actors, which many times amounted to the establishment of an irrational, wasteful provisioning system. *The disintegration of medium level provisioning and its institutional system* was brought about by a one-sided interpretation of the level of subsidiarity as well. This interpretation put the emphasis on the implementation of the tasks at municipal regardless of the counties being in some cases the most appropriate level for task fulfillment. This one-sided interpretation is also reflected by the absolute legal autonomy of the municipalities, which allows the municipalities to establish new regional institutions as voluntarily accepted new tasks, or organise new services by themselves or in association with each other even in the field of public services, which are the responsibility of the counties. The counties were only bystanders in the process, especially when in the first four years of the transitory period the small towns took up maintenance of secondary level institutions that are beyond their means. The systematic or more exactly the unsystematic character of secondary provisioning was shaped by a series of individual decisions made by the municipalities.

The advantages of having town status for financing has decreased since 1990, although the state provides more support for towns and supplements personal income tax per capita. On the other hand, only villages get the normative support of two million forints per settlement. So when a village is declared a town, they lose this subsidy. Despite this fact, the number of towns has been growing continuously. *The number of towns is presently 218, 40 of which (19.4%) have received this title since the systemic change (12 of them last year)*. The pace of this process seems to be continuous. One of the reasons for that is obviously the fact that the Act does not define the parameters necessary to obtain the town status with sufficient precision. Only the level of development of a large village applying for funds and its regional role are considered, on the basis of which the President of the Republic is entitled to decide. Before the amendment of the Act on Local Govern-

ments in 1994, any village could apply for town status. Since then, only large villages can do so. Although the instructions of the Act say that only villages with more than 5,000 inhabitants can bear the title of a large village, it also says that this regulation does not concern former large village councils. This means that 235 villages are considered as large villages now, the majority of which does not reach the population threshold of 5,000 people. The Ministry of the Interior did not detail and amend the criteria necessary to obtain town status in a decree but in a simple pronouncement. Based on this, a special point system is used to assess and compare the ability of the applicants to maintain their population, their infrastructural provision, institutional system, etc. according to the indices of small towns.

The Act retained the category of *towns of county rank*, without providing these large cities selected from the territory of the counties with any additional authority from an administrative perspective. The distinction basically means that the voters living in towns of county rank do not have representation in the general assembly of the county, as they themselves are considered as regional sub-centres capable of carrying out regional tasks. This noble principle was damaged, however, during legislative procedure, partly by the possibility of taking up local governmental tasks, i.e. the right of any municipality to fulfill regional functions without any county status, and partly by the soft regulation on awarding county rank status.

The Parliament may declare towns with population exceeding 50,000 as towns of county rank. This caused an absurd situation in the first local governmental cycle when Dunaujváros, Sopron, Hódmezővásárhely and Nagykanizsa received county rank status, although they are not county seats, while Salgótarján and Szekszárd, despite the fact that they are county seats, could not be awarded such status. To amend this mistake, the amendment of the Act in 1994 stated that each county seat had an automatic right to have county rank status. Presently, there are 22 such towns.

According to relevant regulation, towns of county rank are *considered as municipalities which fulfill the tasks and responsibilities of county governments in their own area*. This means that the Act provides a passage between the tasks of county government and those of the municipalities. As these two local governments, which have regional functions, are not represented in each other's bodies and because, in 1990, rivalry started between them for the ownership and maintenance of medium level institutions, we can claim that the Act institutionalised a kind of conflict situation. An amendment to the Act in 1994 was meant to resolve this conflict, which said that the towns of county rank and the general assemblies of the counties are obliged to create a *reconciliation committee* in order to cooperate in common tasks. The dialogue has thus started, but this does not change the fact that *most of the towns of county rank exist in a kind of isolation*, having no institutionalised connections with their catchment areas, and they are reluctant to take part in any regional co-ordination, since the legal regulation of these co-ordinations is not clearly defined.

The Act on Local Governments not only neglects urban areas, but also ignores the integrative functions of towns. The harmonised administrative operation of the towns and their surroundings was already achieved by the council system, which was rational both in an economic and administrative sense. The local governmental system was unable to integrate this model as an obligatory association, although it was up-to-date with respect to public administration.

2 The right of association

2.1 General administrative districts, notary offices and notary districts

The right of association is *defined as a basic right of the municipalities* by the Constitution in force and the Act on Local Governments. The liberal regulation does not acknowledge obligatory associations and does not enforce associations for the solution of tasks. The foundations of the system of administrative district have been the notary offices and notary districts since 1990. Notary districts as common offices of the founding of municipalities are usually considered to be administrative associations with general competence, although the Act on Local Governments does not regulate them in the chapter on associations. To simplify it a little, we can say that the notary districts are the chief notaries themselves, who, by the Act, were given authority over the territory of all the municipalities belonging to the notary district. The relevant regulation does not specify exactly what notary districts are, whether they are common offices of two or more municipalities; one can only deduce it from the Act. Also, the legislator did not settle the important issue of how the seats of the notary districts, which can be any village or town, relate to the notary districts, to the common offices. It remains unclear whether their own offices are used or the common office should be interpreted as an association of municipalities with general competence or as an organ of the association.

Notary districts, with few minor differences, cover the districts identical to the former districts in the council administration, partly because the formerly created service centres were institutionally oriented towards the seats of the districts, partly because the seats of the former councils could not be denied becoming the notary districts for their associate villages. However, as the *creation of notary districts is only a recommendation by the Act even for villages with less than 1,000 people*, in 1991, of 3,074 municipalities, 1,548 had independent offices. The remaining 1,526 municipalities were integrated into 529 notary districts. It is a crucial fact that small and dwarf villages with less than 1000 inhabitants make up 54% of all settlements, while their total population only amounts to 8% of the total. The number of such villages is still increasing. During the systemic change, a third of villages with less than 1000 inhabitants (528 villages) did not join any no-

tary district. The majority of them can be found not in those regions which are dominated by small villages, but in areas where distance from the nearest major settlement and a lack of traditions led to independence (*Szigeti, E. 1994*).

Because of negative experiences with the former common council system and the lack of appropriate stimulation by the state to integrate into notary districts, the popularity of this form of integration decreased. We witness a slow disintegration of notary districts in the first six years of the local governmental system. In 1991–1993, their number decreased by 30 (6%), that of settlements belonging to them decreased by 129 (8%). The Ministry of the Interior, which is responsible for their supervision, decided to carry out a major step in 1997 in order to reverse this process. A new system of state support for notary districts was worked out. The formerly undifferentiated support was complemented by a fixed monthly amount, depending on the number of associating villages and the total population of the villages served by the individual notary districts. The promotion system definitely supports notary district where the seats are in large villages or towns. The increase in the a number of administrative districts cannot be seen yet, but the disintegration process of the basic units of local public administration has stopped. Legislators themselves calculated the financial support for notary districts into the state budget of 1998.

It is the notary districts as organisational forms of public administration which are a relatively stable spatial categories among all other types of associations. On the other hand, spatial dispersion is indicated by the fact that more than half of the notary districts consist of two and a quarter of them of 3 municipalities. The number of notary districts with more than 6 municipalities is negligible and there are only 13 such notary districts. This fragmentary tendency – especially in comparison to the council system – is even better reflected by the breakdown of the notary districts by population. In this case, we can see a clear decrease of the population. *In 48.5%, almost half of the notary districts, the management of affairs takes place for only 1,000–2,000 inhabitants.* There are 16 notary districts where the number of the inhabitants is between 5000 and 10,000 (which is also considered optimal by European standards), and 8 other notary districts can take pride in having a population over 10,000. In addition, *there are 23 notary districts whose seats are in towns.* Some of them were made into notary districts with the municipalities gaining their independence after the elimination of former village unifications (e.g. Balassagyarmat, Edelény, Lajosmizse, Zirc). The remaining ones had formerly been seats of district common councils, so the reason why the centre of the administrative district is a town is to be found in the award of town status.

The year 1948 and earlier marks the situation before the creation of the council system, whereas 1985 represents the peak period of the network of common councils. Finally, 1993 marks the evolution of the new structure of notary districts. If we compare the historical development of the number of notary districts and common councils, i.e. the primary administrative districts, we can conclude

that presently the number of notary districts is 200 less and that of the villages that belong to the notary districts is 700 less than would be required by a professional and efficient public administration (Table 2). The administrative optimum is also quite far in the sense that the number of employees in the local governmental system, as a consequence of the increase in the number of administrative units, is 8,000–9,000 more than the former council system. This figure was around 11,000 people in 1993. The decrease can be attributed to centrally ordered reductions. The picture is thus quite ambiguous.

Table 2

Development of the number of notary districts and the common councils, with associated villages, 1937–1997

Year	Specification	Their number	Number of associated settlements	Share of all settlements (%)	Average number of settlements
1937	Notary district	704	2,160	64.2	3.1
1948	Notary district	674	2,082	63.2	3.1
1950	Common council	170	361	11.2	2.1
1973	Common council	685	2,122	66.5	3.1
1985	Common council	703	2,281	74.4	3.2
1993	Notary district	499	1,397	45.0	2.8
1997	Notary district	492	1,298	41.2	2.6

Source: Szigeti, E. 1994, p. 617. and A Magyar Köztársaság Helységnévkönyve. Budapest, 1997, p. 10. (based on the author's own calculations)

2.2 Forms and types of association

The Act on Local Governments regulates three types of local government associations in a separate chapter and allows for the application of other forms. Already in 1990, the long-term intention of the legislature, given the extremely disintegrated local governmental structure, was the creation of municipal associations. The willingness of the municipalities to associate, however, has been much weaker during the last few years than is expected and desirable. The most important reasons for that are the lack of stimulation for inter-municipal co-operation by the Government and deficiencies in the regulation concerning the organisation and competence of associations as an institution.

In the background, there lurks a natural law interpretation of local governance, declared in the Act on Local Governments and outdated in Western Europe, which does not allow any state intervention into the life of the municipalities. As a consequence of this approach, the comprehensive financial control of their operation has still not been introduced. In fact, the professional control of their uniform op-

eration is just as inefficient. It is general opinion that village society was politically compensated in the local governmental system for the negative discrimination suffered at the hands of the integrationist politics of the council system. The common councils are mostly held liable for a lack of rural development and the many cases of socio-economic decline in villages during the socialist period.

The equalisation efforts of state policies in recent years is also manifested in stimulating and supporting above all those developments in the first parliamentary cycle which strengthened municipal independence. The central support system for local governments, the so-called targeted grants, provided resources awarded through application almost exclusively for infrastructural developments important for the villages. This amounted to the construction of new schools providing the first four years of primary education even in the smallest villages. Villages were provided with potable tap water, parish halls were renovated, etc. These grants, which have only lately preferred, to a limited extent, the establishments created by the co-operation of villages, acted against the creation of associations specified in the Act, i.e. voluntary integration. The Government has meanwhile recognised the absurdity of the situation, and after the considerable amendment of the Act on Local Governments in 1994, the possibility for financial support for the associations could appear in law for the first time. The possibility has remained mostly unused so far, however.

Because of their size, a significant part of villages are unable to provide adequate service to their respective populations. At the same time, it is recognised that parallel to the birth of a welfare state, a large share of local tasks become supra-municipal tasks. It is neither reasonable nor economical to practise all the tasks and competences of local public administration and operate all public services in each village, although municipalities for years were predestined for such a problem. The empirical research of the last seven years have demonstrated that municipal integration is stagnating to a very low level and that the typology of the associations needs to be reconsidered. Having recognised this, Parliament ratified an act on the associations and co-operation of local governments, which came into force in January, 1998. Thus, the history of the institutionalisation of inter-municipal relations can be divided into two separate periods. First, we will try to sum up the lessons of the first seven years.

The Act on Local Governments has regulated three forms of association from the beginning. The closest integration of co-operating municipalities is the common body of representatives. *The common body of representatives*, as a comprehensive and particular form of association, is more or less meant to fill the void left by the elimination of the common councils. It gives an opportunity for the associating municipalities, within an organisational framework, to unify their budgets, maintain common offices and operate joint institutions. The regulation acknowledges the category of issues exclusively relevant for a single member municipality, which the individual representative bodies keep within their own com-

petence. Because of the negative experiences of the common councils in the past, the common body of representatives is a less popular form of association. By 1994, only 58 municipalities had decided to accept it, creating a total of 20 common bodies. These figures should be assessed in light of the fact that in 1996, in 1,009 villages (32.3% of all settlements), the number of inhabitants did not even reach 500.

Official administrative associations are primarily designed for the professional management of certain official issues of state administration, which would be relevant especially for small villages where either professionally trained administrators are absent or the volume of the administration is so small that it would be unreasonable and too expensive for local governments to employ a full-time administrator. Only a small number of official administrative associations have been created, even in counties dominated by small villages. The problem so far has been mainly in their regulation, as the legislature has so far not allowed the notary of the office in the central municipality of the association to have competence over all associate municipalities in common official issues. In its absence, the advantages of the creation of such an association were not perceptible and villages reacted to this situation by employing a common administrator, which promised cost-saving or avoidance of making an association contract (Pfeil, E. 1995). The object of the associations was mainly a technical-architectural issue, and rarely covered industry, trade, enterprise or labour affairs.

The existence of *institutional management associations* should have been justified by the service institutions given over to the ownership of the municipalities. The ownership patterns of the institutions jointly maintained by the local governments can be twofold. Because of the developments that had been concentrated in the seats of the former common councils, it was a major rule that educational, training, social and health care institutions become common properties of the municipalities, as they cannot be divided. In addition, among jointly maintained institutions, there are some which belong exclusively to the seat of the notary district, either because the centre of the notary district used to have an independent council or because the former associated villages simply abandoned their portion of property in an attempt to get rid of some maintenance costs. This does not exempt, however, other local governments from paying their contribution to the maintenance of the institutions if their inhabitants use the given establishment, because the ever-wider gap between normative state support provided for primary schools and their real operational costs makes the participation of local governments inevitable in their financing.

Because the bodies of representatives could not delegate their competences to their associations before 1998, institutional management associations, as formal institutions without any decisional licence, were rarely founded by the municipalities. Instead, a joint financing of institutions took place through some transactions among the budgets of the municipalities. These transactions were made without

any contractual guarantees and thus did not allow for the protection of the rights of the parties. In many cases, the relationship between former associate villages went so sour that villages with 300–500 inhabitants chose to run their own independent schools instead of co-operating, although it is evident that the costs per pupil are inversely related to the size of the institution. So far, society and the state have accepted these extra costs in the spirit of local governmental autonomy. Nobody has inquired about the technical equipment of the educational institutions or the quality of the work of the teachers. Only in 1996 did the Ministry of Education allow for the support of the associated maintenance of primary schools and the operation of school buses. However, only half of earmarked provisions were distributed. The instability of the situation is shown by the fact that 78 primary schools ceased to function by 1997 (the total number of primary schools was 3,765) and 45 new institutions started their operation, while 2,861 children attended 207 small schools with less than 20 pupils (*Halász, G.–Lannert, J. eds. 1997*).

It is very difficult to judge the balance of the inter-municipal co-operation of the former period. The associations, for several reasons, could not become regional units. This legal institution still lacks a uniform system of registration because before the enactment of the Act on Associations, only official administrative associations were subordinate to the organ responsible for the legal supervision of the municipalities. The municipalities did not have to have other formations of association registered. They were known to the supervisory organ and indirectly to the Ministry of the Interior by the legal acts of the associate bodies of representatives. The interests of citizens in has yet to be brought to public attention. That is why there are no data available on the number of operating associations, as state control did not even register possible changes to existing contracts. The assessment of association contracts also reveals serious problems, as analyses have shown that, in the absence of appropriate regulation and professional assistance, the majority of contracts contained basic mistakes in form and content. These processes clearly show that, apart from the structure of notary districts, we are still unable to establish a complex of services and official administrative districts after the systemic change (*Table 3*).

Table 3

Number of associations specified in the Act on Local Governments, 1994

Type	Number	Number of member municipalities
o f a s s o c i a t i o n s		
1 official administrative association	260	1,266
2 institutional management association	116	497
3 common body of representatives	20	58
4 notary district	499	1,388

Source: Ministry of the Interior.

Unfortunately, the institutional forms of the catchment areas of towns are practically non-existing. Urban areas and their service zones exist *de facto*, but there are hardly any co-operations within the sphere of public administration between the towns and the municipalities in their surroundings. Favourable changes can be seen in the field of regional development.

The new Act on Associations brought significant changes to the content of the right of association, which has been taken over by the Act on Local Governments as well. Practically all organisational changes that the Constitution allowed for were carried out. One of the most important changes is that local governmental decisions can now be made by the associations of local governments, and also that the body of representatives is entitled to found a formation to which they can transfer some of their competences, including the competence of appointment and founding institutions. This means that in the future the association will manage the negotiated affairs instead of and on behalf of the founding municipalities, but the municipalities still have to carry out their tasks. These possibilities and allowances will probably move the institution of the association out of the present nominal status and will contribute to a more professional and higher quality official functioning. Also, the chaotic situation that has so far characterised the registration of the associations will diminish as all types of associations will fall under the authority of the Government Office of Public Administration. The year 1998 will also mean a kind of closure in the sense that the bodies will have to revise their present agreements and have to adapt them to the requirements of the new Act. The deadline defined for that by law has already expired, but the national data of total existing associations are still unavailable.

The Act on Local Governments still contains the different forms of associations. The changes that have taken place in this sense are mainly changes in labels. From now on, we talk about *institutional associations*, and the name "common body of representatives" is replaced by "*associated body of representatives*". The new typology of the associations is regulated by a separate act. From now on, municipalities can choose, if they wish, to found an association in the stricter sense. The association can exist with a common decision-making body, the associate council, whose resolution is slightly further away from the municipalities. Municipalities can alternatively be satisfied with a so-called commissioned association. In this latter case, the specific tasks, competences and services are done for the client by the municipality operating as the place of execution. If the same agreement concerns the joint maintenance of an institution or joint employment of an employee, the right of opinion, protecting the associating municipalities, is applied in the decisions. Finally, in case of the fourth type of association, the intention of the parties must be to found an association of legal entity that allows for individual responsibilities and for the right to property. The foundation of joint local governmental institutions is only allowed in this form.

The legislature has tried wherever possible to build on the international experiences of the right of association into national regulation. At the same time, *there is not a single type of association which allows the participation of the subjects of civil law in inter-municipal co-operation*, i.e. in the joint service organisation of the municipalities. This deficiency mostly strikes associations created for micro-regional development. Similarly, the opposition of the political parties blocked the professionals' effort to create the legal conditions to command obligatory associations. This latter measure would have required the modification of the Constitution. The institution of obligatory association did exist in the draft of the new Constitution, which for a long time would have allowed its definite introduction for the implementation of official tasks. The bill made about the Constitution was a positive step, where the associate implementation of all obligatory tasks of the local governments could have been ordered by law. (The obligatory tasks specified in the Act on Local Governments are as follows: supply of drinking water, kindergarten education, primary school tutoring and education, basic health care and social services, lighting, maintenance of local roads and cemeteries and the assertion of the rights of national and ethnic minorities.) The new Constitution, however, did not get the necessary support from the Parliament, so politics prolonged the introduction of obligatory associations, which is very unlikely to take place within the foreseeable future, as the parties in Parliament, being loyal to the natural law concept of local governments, do not accept the theoretical bases of the existence of obligatory associations, i.e. the concept accepted by most of Western European states, which says that the state should have the possibility, for the protection of any basic constitutional right, to intervene into the sphere of public administration in order to formulate an appropriate division of tasks and labour. It is explained by the fact that within the frameworks of a constitutional state, the state is responsible to its citizens for the operation of a professional and efficient public administration. If local governments are unable and fail to carry out their obligatory tasks defined by law and do not co-operate with each other for the implementation of the task, based on acts of free will, the state can bring a case against them, within the frameworks of the practice of legal control (*Donhauser, P. 1970*). In Hungary, however, a condition for that would be to acknowledge municipalities as part of the state organisation. Almost all countries with advanced market economies accept this principle. In fact, if we take a closer look at the constitutions of those countries which contain basic regulation for local governmental associations (Austria, Belgium, Holland, Greece), we find that in a narrower or wider form they have created the constitutional basis for obligatory associations. In summary, we can state that the obligatory association is an institution obstructing the freedom of association by the municipalities, which is meant to create a balance between the unity of the state and the interests connected to the preservation of municipal autonomy (*Pfeil, E. 1996*). Until the introduction of obligatory association, adequate financial stimulation and professional criteria will be necessary for a legal

and sufficiently professional operation of elementary public administration. For the time being, there are no parameters regarding what makes a mayor's office an office, or when an educational institution can be qualified as a school. Waste and inefficiency are characteristic of the current local governmental system.

The Hungarian local governmental system could only partially apply in local public administration the principle of subsidiarity, which was stated in the "European Chart on Local Governments", accepted as the highest legal document of the Council of Europe. In Hungary, it is usually those authorities responsible for the local community which are closest to the citizens. However, the organisation of public administration and policies is less consistent with recommendation of the Council of Europe, which states that the transfer of responsibility to other authorities should be assessed by the nature and extent of the task and by the requirements of efficiency and economy. In order to comply with these requirements the legal background has to be created, as the state supervision of local governments lacks the mechanism which would continuously monitor the quality and extent of the execution of tasks at the different levels of local government. In the absence of that, we can hardly expect that the tasks and competences are located at the optimal level of provisioning.

3 Organisational frameworks for micro-regional development

The Act on Regional Development and Physical Planning, which was passed in 1996, created the institution of local governmental associations for regional development. This is a new element not only in regional development but also in public administration. The institutionalisation of these associations had taken place prior to the enactment of the Act on Associations. After it was passed, a strange situation occurred: *associations founded for regional development purposes, which could only be formed with the participation of local governments, did not fall under the competence of the Act on Associations.*

The appearance of micro-regional organisations created for regional development goes back to 1989 in Hungary. Since then, two types of micro-regional organisations can be distinguished. The first type includes organisations based on local governments, which formalise the co-operation of municipalities, while the other type encompasses civil organisations based on a local community, which apply mainly for registration as societies or social organisations at the Court of Registration. The organisations created according to the association rules of the Act on Local Governments were the bigger group. Common to both micro-regional organisational forms is the development of a specific certain region and participation in the definition and implementation of regional development objectives and programmes. Two factors definitely played an important role in their appearance and expansion. On the one hand, they tried to fill the gap at the medium level cre-

ated by weak county administrations void of functions, on the other hand, the majority of these organisations were created in order to improve the chances for access to state funds. The latter was further stimulated by government decrees made for those counties designated as underdeveloped. These organisations, the creation of which was stimulated by the financial means of the Government, are sometimes called top-down initiatives, as they mostly conform to the boundaries of given counties (Hajdú-Bihar, Szabolcs-Szatmár-Bereg and Nógrád). At the same time, government policy did not decide for years which legal forms of the organisations should be accepted as legitimate, which resulted in some damage after the enactment of the Act on Regional Development and Physical Planning. Micro-regional organisations choosing either organisational type had to face the problems of institutionalisation. Civil organisations evidently had no access to government resources. The organisations operating as associations could not make real decisions, as the Act on Local Governments did not allow at that time the transfer of local governmental competences to associations and the courts did not acknowledge the legitimacy of these organs.

The surveys conducted in the autumn of 1993 registered and examined the operation of 68 micro-regional organisations (G. Fekete, É. 1994). It was already visible at that time which aspects played a role in the designation of their territorial borders. As a result of spontaneity, the settlements of small regions associated themselves in more than one third of the cases. In a quarter of the cases, it was towns and their catchment areas, while in other cases settlements belonging together in a former administrative district associated themselves. In a few places, ethnic or cultural identity became the basis for the designation of micro-region. Among other things, this is the reason why differences in the number of member settlements of the organisations are large; they range from organisations with only a few members to ones with almost 100 settlements. Their borders naturally do not follow administrative borders. There are cross-county associations among them. The capability of these organisations in regional and economic development raises the subtle issue of scale. There is an association with a population of 60,000, but there is also one where the number of the inhabitants is 3,200. Furthermore, it happens frequently that the same municipality belongs to two or more micro-regional organisations, thus *associations can overlap spatially*.

In 1996, after the Act on Regional Development and Physical Planning came into force, the situation of micro-regional development changed significantly. The Act only acknowledged the existence of micro-regional development associations, i.e. the legitimacy of the organisations were linked to the foundation of associations in compliance with the Act on Local Governments. This also means, according to the issues discussed in the previous chapter, that actors in the civil sphere and the economy were officially pushed out of the institutions, as they can only be constituted by local governments. At the same time, it is quite ambiguous that the county-level regional development tasks and the operation of the institutional sys-

tem were not allocated to the county governments. Instead, the legislature created a new organ with corporate features in order to assert the principle of partnership. Micro-regional development associations are also represented in regional development councils at county level, but in a regional distribution different from actually working micro-regions.

The Central Statistical Office worked out and has used since 1994 a system of micro-regional statistical districts which complies with the requirements by EUROSTAT. During the delimitation of the districts, the attraction of labour force, transportation and medium level service supply were taken into consideration. In this system, each settlement belongs to only one district. In their delimitation there was a conscious effort to allocate each catchment area to an urban or at least an urbanising village centre. The regional division at first contained 138 units. This has been continuously criticised since the introduction of the statistical system. After the recommended amendments of recent years, the number of units has grown to 140 and a slight modifications to their borders, changing the status of some smaller settlement groups, has also taken place. These figures are basically the same as the number of basic units in urban areas, which were introduced in 1984. The number of urban areas then was 139. Naturally, there are differences in their designation. For example, there are 13 catchment areas in Hungary now which were not taken into consideration by regional policy in 1984. These statistical catchment areas thus seem to be a relatively stable spatial category, which of course does not exclude modification.

One of the characteristic features of statistical micro-regions is their territory, which is 674 km² on average, and their average population, which is 57,000 inhabitants, ignoring the micro-region of the Budapest agglomeration with its 2.4 million population. The most populous micro-region is that of Debrecen, which is home to 295,000 people, while the smallest one, the Pécsvárad micro-region, only has 12,000 inhabitants. The number of settlements belonging to each micro-region show even bigger differences, which is evidently connected to a breakdown of the settlements by size. The catchment areas designated in areas dominated by small villages consisted of 70-80 settlements, while the catchment area with the smallest number of settlements only integrates three administrative units. The delimitation of the statistical catchment areas took 184 towns into consideration. The number of towns has increased to 218 since then, with a wave of town-status awards for many villages. This has also increased the number of micro-regions with more than one centre. Presently, two thirds of micro-regions have one urban centre and in one sixth of them there are two. There are three to five towns in 17 of the total micro-regions.

The Act on Regional Development and Physical Planning introduced three parallel micro-regional categories, whose relationship to each other is still not clarified. The Act defines the categories of 'micro-region' and 'urban area' among the basic concepts. Micro-regions are defined as territorial units which can be

drawn by the total of the functional connections among the settlements, as self-organising, neighbouring groups of settlements with intensive connections with one another. This definition can suggest that the legislature identified the concept of the micro-regions along bottom-up micro-regional organisations. Neither a necessary geographical size nor the legal form was specified by the Act. In fact, not even the presence of an urban centre in a micro-region was a criterion. The picture is only complete, however, if we look at the regulations made for the local governmental associations created for regional development purposes. These state that only the representative bodies of municipalities are entitled to make contracts which aim at the harmonised development of settlements, the preparation of joint regional development programmes and the establishment of common funds which serve the implementation of the development programmes. These associations are definitely local governmental associations, the creation of which is voluntary. According to the most essentially restricting regulation, these spontaneously created associations can only be represented in the regional development councils of their counties as the statistical catchment areas discussed above, but the two micro-regional networks do not necessarily overlap. The third type of micro-regions is the urban area, as a self-organising territorial unit created for the harmonisation of development programmes. It would have been very important to re-introduce the concept of urban area at least in regional development, but unfortunately the Act did not take them into consideration. There is only one legal consequence connected to urban areas: county governments were obliged to participate in the harmonisation of planning for towns of county rank and the concerned settlements in the surroundings of the town. This regulation concerns altogether 22 towns and their catchment areas.

Due to the liberal legal regulation, two parallel micro-regional organisational systems exist. Formerly created alliances, associations and societies live on, carrying out their activities based on common interest and on the socio-economic connections of the settlements, which explains why they operate so well. The existence of statistical catchment areas is largely formal. In approximately half of the micro-regions, the micro-regional association overlaps with the territory of the statistical catchment area, so they have a direct representation in the regional development council of their county. In the other half of the micro-region, several spontaneous organisations operate in the statistical catchment area. In order to resolve this discrepancy, they formally merged or simply started to co-operate in order to receive single representation in the regional development council of the county. In reality, this means that the leaders of the micro-regional organisations in the same catchment areas alternate their jobs in the county council with a frequency of once or twice a year. This solution is democratic but does not necessarily serve the principles of efficiency and long-term interests.

Micro-regional associations work in a consolidated form. Their number is estimated to be around 220. This is only an estimation, as no legal norm has ordered their registration so far. It is feared that this situation will not change, as they do

not fall under the competence of the Act on Associations, and the leaders of government offices of public administration do not practise legal supervision over the micro-regional associations either. According to the latest surveys, the main focus of their operation shifted towards local governmental type tasks, and tasks of a civil character are now in the background, compared to the situation in 1993–1994. The most important objectives that they set are working out regional development plans and concepts, together with the co-ordination of development programmes, according to the requirements of the Act on Regional Development and Physical Planning. This is followed by urban development, with priority for common infrastructural development and the shaping of the image of the region.

It cannot be denied that regional development associations face many a difficulty. It is especially the financing of micro-regional level that is unsolved. The Parliament forgot to allocate financial resources to this level of regional development and planning; in fact, it ordered that the operation of the regional development councils of the counties should be partly financed by these associations themselves. Presently, there is not a single central resource which could finance, if certain conditions are given, the functioning of the operative organs of these regional associations. The resources which can be gained through funding applications are always uncertain and the permanent constraint to apply for funds is also disadvantageous for these organisations. The majority of them do not possess any material property. And where they do have some, they are usually the object of working infrastructure, where in the background usually we find a Phare-supported micro-regional programme. Although the operation of regional management would be an extremely important factor, it is far from being exempt from problems. Many organisations do not have a single employee. Thus many times the associations do not even have stable and well trained human resources, which would be a prerequisite for an intensive and professional work.

The Act on Regional Development and Physical Planning concentrated on working out a decentralised institutional system, in order to implement a new model of regional policy. This is why micro-regions received the dominant role in the field of planning and financing, too. The above-mentioned regulation resulted in the contradiction that planning – i.e. the activity which requires stability, consistency and transparency – takes place in the functional micro-regions, as micro-regional development concepts are contracted by regional development associations and for their territory, but financing and the implementation of the development programmes of the functional micro-regions is bound to the statistical catchment areas *because the Government defined the types of intervention regions according to statistical districts*. A condition for the access to decentralised resources is that the grant awarded should support a programme implemented in a beneficiary region. This means that the statistical catchment area to which a settlement belongs has serious legal consequences. It also reveals that the delimitation of intervention regions amounted to the introduction of further regional types:

regions underdeveloped socio-economically, regions struck by lasting unemployment and regions of industrial restructuring or agrarian and rural development. In the 1998, 88 of the 149 statistical micro-regions (59,1%) were listed among the beneficiaries of regional development.

The uncertainty of the sums awarded through funding application is complemented by the difficulties coming from the principle of additionality. This principle cannot deal with differences in the development level of the individual counties and the deficiencies of the financial resources of the municipalities. Smaller villages belonging to the catchment are of larger towns especially complained that these villages, which suffered from serious problems, did not have the possibility to apply because of the more favourable economic indices of the towns they belonged to. After two years of experience in the operation of the regional development councils, they became subject to sharing by the micro-regions. During the resource-distributing activity of the councils it is a conceptual issue whether they should support many investments with sums lower than the required sum of the support, or they should award almost the whole amount required to a smaller number of investments. In most cases the first solution came into effect. The regional development concepts contain elements with direct and certain regional effects and these should be distinguished from the development efforts of individual settlements, which might be disguised as regional concepts. One of the biggest dangers of regional planning in Hungary now is that it is becoming a servant of settlement development, influenced by pressure from below, because of the decline of the resources of the latter and so it mainly serves local interests (*Hrubi, L. 1997*). Unfortunately, this problem is even more expressed during the distribution of aid from decentralised funds which have to be applied for. In this sense, priorities have usually not been followed in the last two years. The activity of the regional development councils was mostly restricted to settlement development.

The Act established a systematised frame for regional development and physical planning. The legislature, however, has still not regulated the connection of the concepts at different territorial levels. Planners do not know who will be the first to accept regional plans and who will adapt to whom, as the relevant government decree only mentions the right of opinion. A sterile dispute is going on, among other things, about whether development concepts should build upon each other from the top-down or from the bottom-up (*Hrubi, L. 1997*). The influence of the municipal level might be excessive here. From the comparative analysis of *Fürst, D. and Ritter, E-H. (1993)*, we learn that the communalised regional planning models of Western European countries are definitely built upon either the municipal bodies or political organs consisting of the delegates of municipalities as decision-makers, who have to achieve the integration of different social interests. Still, the essence of the planning mechanism is not that regional planning starts from municipal, maybe micro-regional level, and then the regional and finally national plans are built onto them. On the contrary, municipalities have a right of active

participation in the planning process and can actively influence the plans, which also means that they have to adapt to national and regional plans, which is made necessary by their financial dependence.

This principle has not become naturalised yet in Hungary for fear of lessening the municipal autonomy. In this respect, it can be considered a breakthrough that decision 3/1997 of the Constitutional Court defined the hierarchical order of planning on the basis of the laws in effect. This decision supports regional development and plans and the notion that national-scale plans or those concerning selected regions have priority over the county plans, while the plans for individual settlements have to adapt to all the three larger-scaled plans. At the same time, the Constitutional Court also emphasised that the competence of the municipalities defined by the Act on Regional Development and Physical Planning – the right of consultation and discretionary responsibility – serves as a guarantee when enacting county level plans. The omission of this competence serve as a basis for the annihilation of the decree enacting the plan. This evidently decreases the regulating autonomy of the municipalities, especially compared to the situation where they would not have to adapt to the plan regulations of bigger territorial units. The decision of the Constitutional Court also reveals the important fact that the obligation of the municipalities to adapt to higher level planning is based upon their participation in the acceptance procedure and their influence on it. In the interpretation of the Constitutional Court, this does not create in itself sub- and superordinate relations.

This study could not go beyond assessing the present situation in Hungary. The basic elements of regional subdivision are in the process of being reshaped. With respect to the creation of operable structures, it is now the legislature's turn. A promising fact is that the government programme for the modernisation of public administration has been in effect since 1996, defining progressive, large-scale reform measures.

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REGIONAL DISPARITIES IN THE PRIVATISATION OF LAND*

TERÉZ KOVÁCS

From the mid-1980s agriculture in Hungary ceased to grow, which could at first be seen as a drastic decline in output, later in terms of numbers of employees. In 1985 22.2% of the GDP came from agriculture, forestry and food processing, while in 1996 only 11.9%. In 1985 24.2% of the active earners were employed in these sectors, in 1995 only 12.7% of them. Within this structure, the ratio of those employed in forestry is very low, some 0.4%, the figure for agriculture is 7.9% and for food processing, 3.5%. The reasons for the decline of agriculture were manifold: a decrease in subsidies, changes in market conditions, the widening of the parity gap, rising bank rates, a decline in profitability, and privatisation. This essay mainly deals with the issues of land-privatisation. Before that I will take a brief look at the historical development of the Hungarian agriculture.

1 Historical preliminaries

Between the two World Wars, the aristocracy owned 38% of the land while the rate of those who had no land at all reached 28%. Only 20% of the agricultural population was capable of the civilisation process. In 1945 an agrarian reform was carried out. The maximum size of properties was limited to 100 "holds" and approximately 600,000 families were given land. Nevertheless, even the land thus acquired was insufficient for two-thirds of the families to make a living. Despite this, the peasants started their economy with great enthusiasm, being happy about the end of the war and hoping for a better and easier life in the future.

In 1948, however, the Hungarian Communist Party eliminated the multi-party system and wanted to introduce a Soviet type of agriculture in Hungary. The leadership of the party ignored the fact that the roots of private land ownership were stronger in Hungary than in any other Eastern Central European country; also, that the peasants preferred to till their lands as individual farmers.

The 1950s was an extremely hard decade for the Hungarian peasants. A very strict tax system and unrealistic compulsory produce-delivery were introduced. Those who did not meet the requirements were imprisoned or interned in work-

* The study was conducted in the frameworks of the OKTK research No. A-1128-97.

camps where the conditions were inhuman. The peasants were forced into co-operatives, often by physical force. The restrictions against peasants were the toughest in Hungary, following the example of the Soviet Union. The outbreak of the Revolution of 1956 was partly a response to these measures.

In the 1950s, during the anti-peasant policy of the party, there was considerable investment in the development of villages. The whole village-network was electrified in this period, and access roads and schools were built. It was not by chance that agrarian- and village policy were in opposition. The party thought that it attacked the wealthier peasants with its agrarian policy, while helping the poorer population through the development of the villages. This measure harmonised the intentions of the party.

After 1956, peasants were given more latitude for a while, but another restriction came in 1959–1961 when the second collectivisation of agriculture (taking it into public ownership) took place. This collectivisation covered the area of the whole country, but, unlike the collectivisation of the 1950s, physical force was not used this time. The communist leadership considered the success of agriculture as a matter of prestige. For this reason significant investments were made in agriculture from the beginning. In the 1960s, 18% of all investments were in the agricultural sector. This still did not prove to be enough to increase productivity, so producers' prices were significantly raised in the late 1960s and the agricultural co-operatives were given credits with favourable conditions. A few years after the establishment of the co-operatives, private enterprises within the co-ops, the so-called 'homesteads' were allowed. The major part of the labour-intensive agricultural work took place in family enterprises, while procurement and sales took place through the co-operatives. Also, the co-operative carried the risk of the members. Interestingly enough, according to the centralised economic system of the era, the state carried the risk of the co-operatives. The market as an economic co-ordinator did not exist, trading agreements between the former communist countries were made in inter-state treaties.

In Hungary following World War II the agricultural population decreased faster than the population of the villages (*Table 1*). The wave of migration from the villages succeeded the outmigration from agriculture, a decade or two later.

The main reason for this phenomenon is the fact that industrialisation in Hungary in the last 50 years was faster than urbanisation. The first generation working-class leaving agriculture often stayed in the villages, commuting daily to their workplaces, after work hours producing the food needs of the family, with perhaps a little surplus for sale. They did it because the wages received for their full-time jobs were not enough to live on. In 1990, 15.4% of the population had agricultural type full-time jobs, but in the villages this reached 28.8%. At the same time, 60% of the families (80% of those living in villages) produced food. Their situation can be compared to that of part-time farmers in Western societies. So in Hungary it

was not the middle class that chose the villages as their places of residence: the working class stayed there, mainly through lack of alternatives, because in the system of state distribution, the party functionaries, the intellectuals and middle cadres were the favoured ones in the distribution of the urban apartments.

Table 1

The rate of agricultural and village population in Hungary (in per cent)

Year	Those living from agriculture	Village dwellers
1930	56.0	51.9
1949	54.0	51.6
1960	37.0	48.4
1970	24.7	43.7
1980	18.9	39.9
1990	15.4	38.1
1996	8.2	37.1

Source: Statistical Yearbooks.

2 Large regions and small regions in agriculture

Hungarian agriculture in the past was, generally, spatially versatile. The disparities not only did not disappear during the socialist period but deepened.

From the viewpoint of agriculture, Hungary can be divided into three large regions (*Figure 1*): Transdanubia, the Great Plain and Northern Hungary. The large regions follow the county borders and cover areas of different size. The area of Transdanubia is 35,773 km² in the western part of Hungary, the Great Plain covers 43,894 km² and Northern Hungary 13,363 km². Between the large regions considerable differences can be seen in the balance between the different branches of agriculture. The most characteristic agricultural region is the Great Plain, where the proportion of ploughed lands, vineyards and orchards exceeds the average, as does that of the pastures. These positive deviations from the average are counter-balanced by the lower share of forested land. As opposed to this, Northern Hungary is the most forested region where the proportion of grasslands also exceeds the national average, while the proportions of ploughed lands, fisheries and reed-beds lag far behind the norm. Transdanubia is the closest to the national average, with the share of grassland, ploughed lands, vineyards and orchards slightly below the average and that of the forests a little over.

Between the two World Wars, in Transdanubia and the North the system of large estates prevailed, while in the Great Plain that of the small- and medium size holdings dominated.

Table 2

*The division of the co-operative land property**

Counties	Lands of the share-holders			Lands of 20–30 golden crowns			Compensation land		Total land of co-operatives	
	Number of owners	Area, hectares	Golden cr.	Number of owners	Area, hectares	Golden cr.	Area, hectares	Golden cr.	Area, hectares	Golden cr.
Baranya	40,149	89,114	1,634,019	20,816	34,095	492,642	66,190	1,075,811	255,196	3,889,760
Bács-Kiskun	154,299	243,045	3,745,616	44,931	86,010	1,164,493	144,021	2,276,869	528,574	7,722,925
Békés	94,399	137,166	3,965,089	29,719	26,024	745,395	178,538	4,897,764	395,978	10,071,769
Borsod-Abaúj-Zemplén	78,976	154,897	2,067,585	17,847	53,633	646,817	123,072	1,682,279	401,313	6,669,050
Csongrád	80,844	116,981	2,284,679	25,843	30,463	636,894	115,557	2,727,012	295,387	5,907,358
Fejér	54,902	103,457	2,402,069	11,621	12,555	311,656	94,955	2,128,795	239,853	5,294,368
Győr-Moson-Sopron	95,223	112,613	2,639,102	7,684	8,585	180,552	90,828	1,660,304	232,205	4,660,975
Hajdú-Bihar	133,429	190,049	3,476,098	–	23,057	378,181	133,615	2,526,484	412,305	6,827,963
Heves	67,314	97,300	1,678,719	23,436	34,111	520,591	65,615	1,135,933	227,783	3,605,540
Jász-Nagykun-Szolnok	77,397	125,517	2,523,233	24,169	40,806	811,528	173,406	3,371,729	402,625	7,481,440
Komárom-Esztergom	17,226	26,170	451,754	11,437	18,721	276,576	37,632	605,526	95,167	1,438,972
Nógrád	42,396	54,219	620,059	11,913	30,663	294,781	47,749	540,798	148,839	1,571,582
Pest	86,095	151,816	2,534,166	–	57,237	838,883	82,561	1,483,666	340,294	5,448,594
Somogy	63,849	130,174	2,090,510	25,050	45,312	603,247	79,775	1,209,386	329,717	4,575,305
Szabolcs-Szatmár-Bereg	168,465	166,252	2,112,763	69,612	107,313	1,278,089	102,591	1,297,757	419,319	4,878,608
Tolna	44,700	81,561	1,899,499	21,426	25,615	547,752	90,201	2,018,366	224,882	4,863,022
Vas	50,984	74,250	1,257,516	–	27,147	424,742	83,641	1,487,936	199,871	3,362,473
Veszprém	56,058	84,157	1,191,690	18,159	32,605	451,554	82,719	1,159,955	233,235	3,041,996
Zala	58,986	108,013	1,369,124	–	32,187	355,943	47,227	611,260	210,424	2,550,814
Total	1,465,691	2,246,751	39,943,290	363,663**	726,139	10,960,316	1,839,893	33,892,630	5,592,967	93,862,514

* According to the data of the land offices of the counties.

** The total sum does not contain the data of four counties, for lack of data. This group makes 420,000–450,000 people in reality.

In terms of the settlement network, large parts of Transdanubia and the North are dominated by small villages (*Figure 2*). These regions are mostly hilly areas, largely unsuited to field production. In the areas between the towns and the villages we find the “puszta”, where the servants of the domains used to live. Following World War II, the domains were mostly transformed into state farms, the homes of the former servants were a little upgraded, and the workers on the state farms, together with their families, were accommodated there. In the Great Plain, the scattered farms (“tanya”) in the neighbourhood of the large villages and the towns – which were traditionally agricultural market-towns – served as residences for the medium- and smaller land-holders and their families. Before the systemic change less than one third of the village population worked for agricultural businesses. On the other hand, 80% of the village people ran part-time homesteads.

In Hungary the number of citizens who have an emotional link with the land is very high. Many share a conception that agriculture will solve the difficult economic problems of Hungary. Ploughed lands, gardens, orchards or vineyards cover 53.5% of the total territory of Hungary. If we compare these figures with the proportion of the cultivated lands in the EU countries, only Denmark has higher figures. The quality of the lands is measured by the 'Golden Crown' system. The average golden crown value of the lands is 20. Categorising by the quality of the ploughed lands, Hungary is divided into 82 small regions. These small regions were designated using the average golden crown values of the ploughed lands of the former co-operatives. The small regions can be classified into six types (*Figure 3*).

The small regions with the weakest, i.e. *unfavourable*, endowments are the ones where the average golden crown value is below 14. Eighteen agricultural small regions can be listed here, comprising four continuous regions. In the regions in the middle of Hungary and in the southern part of the Great Plain, people tried, despite the bad conditions, to find the most suitable ways of making a living from the land: at the end of the last century and in the beginning of this, they created orchards and vineyards; in the period between the two World Wars some settlements dealt with field-grown vegetables; in the socialist period with the growing of early vegetables. This kind of production was more profitable than the traditional field crops. The situation was not the same in the other areas with bad endowments, so this sandy area was a notable exception in agricultural production.

The following type comprises the micro-regions with *poor* conditions for agricultural production. The average golden crown value of the ploughed lands here varies from 14.1 to 17. These regions “link” the former ones in some places, being adjacent to them.

In the former socialist era, state support was provided first for those co-operatives “with unfavourable conditions” where the average golden crown value of the cultivated land was below 14. Later this limit was raised to 17 golden

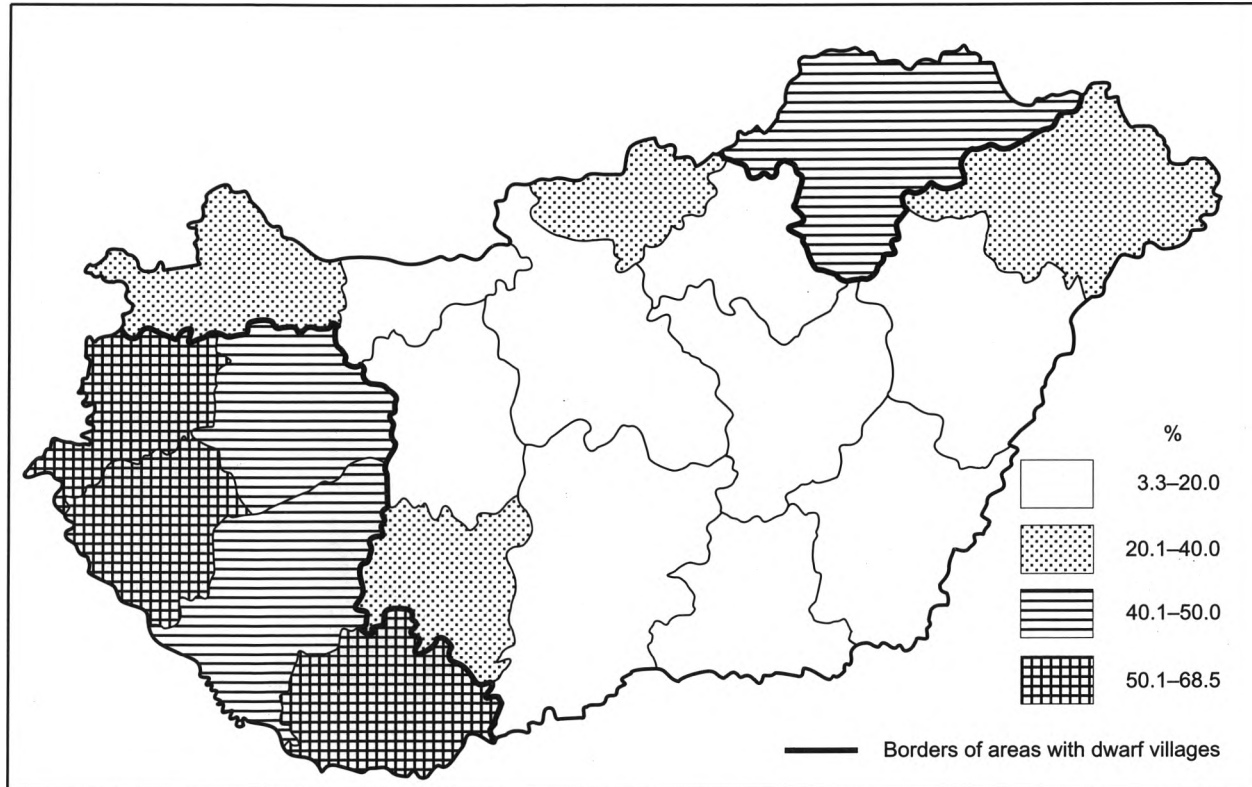
Figure 1

Large regions of agriculture



Figure 2

Proportion of villages with less than 500 inhabitants within the settlements of the counties



crowns. Forty-four per cent of the agricultural small regions belong to these two categories. In approximately half of these areas, no agricultural activity is profitable, given the present costs and market conditions, so these areas should be gradually withdrawn from cultivation and forested or grassed over.

Following the systemic change, state support for the areas with unfavourable endowments was abolished. As a consequence, the agricultural co-operatives or their successors working in these regions became bankrupt, resulting in a very large number of unemployed. In order to limit this effect, from 1996 one can again apply for state grants if they have ploughed land whose golden crown value is below 19.

There is no accepted classification to qualify those lands which are above average in Hungary. Similar to those areas below average, three types might be grouped.

Above average are all those small regions where the average golden crown value of cultivated land varies from 19.1 to 23. The number of such small regions in Hungary is 17. These lands, and those even better, have splendid conditions for agricultural production even by European comparison, and the production in these areas is definitely competitive by the EU standards.

In the next 16 small regions ploughed land can be defined as *very good* (with an average golden crown value ranging from 23.1 and 28).

In the neighbourhood of these small regions are the small regions famous for their *excellent* lands (the golden crown value of ploughed land exceeding 28.1 on average). Hungary has six such small regions.

Calculated by the average golden crown value of cultivated land, on the whole the best lands can be found in Békés, also in Tolna, Fejér and Csongrád counties. The worst lands can be found in Szabolcs-Szatmár-Bereg and Zala counties.

3 The privatisation of the co-operative lands

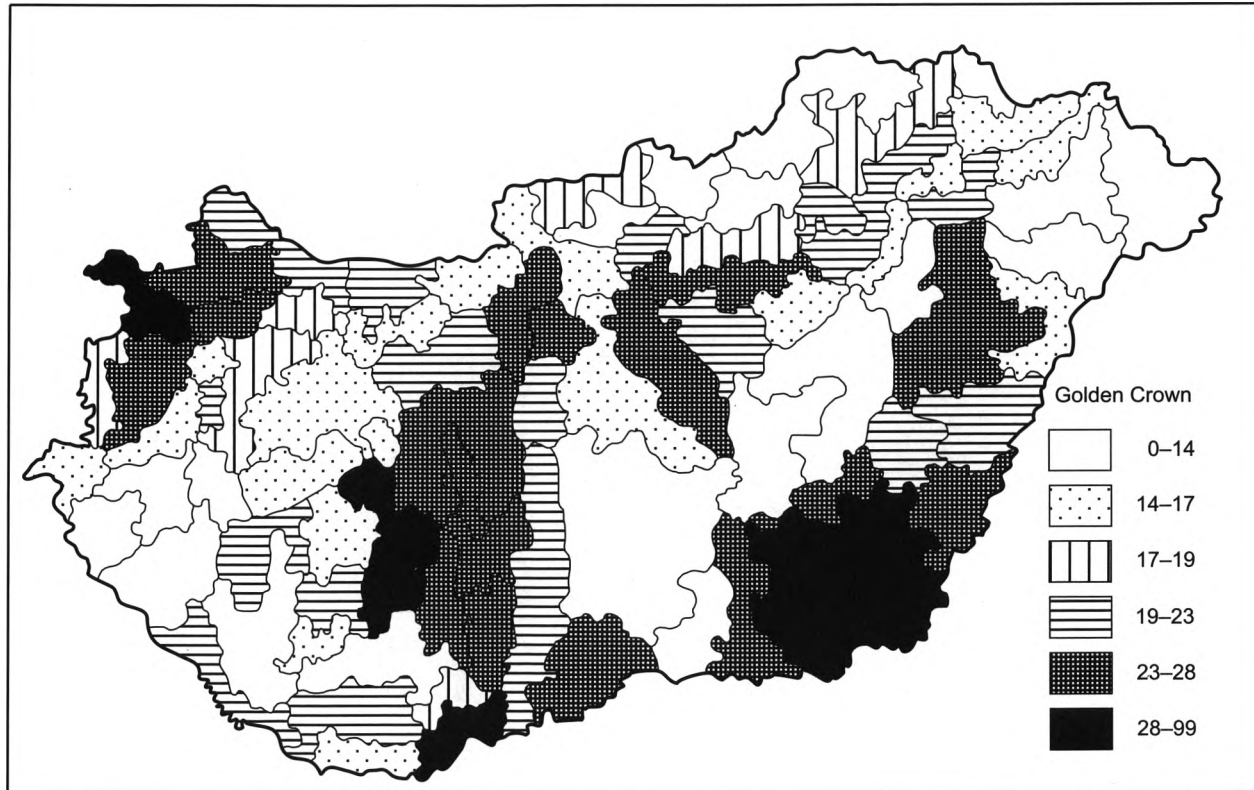
The co-operatives established in 1959–1961 worked for thirty years, to be privatised in 1992–1993. Lands and other properties (buildings, machinery, livestock, current assets etc.) were privatised by two different methods.

The privatisation of the co-operative lands can be considered as complete, although the registration, by the land offices, of the forms of ownership, is still to be done. This task is a function of the modernisation of the property register of the land offices.

The total territory of Hungary is 9.3 million hectares. Before the systemic change, co-operatives operated on 5.5 million hectares, accounting for 93 million golden crowns (*Table 2*). Back in those days, co-operative lands could be put into four categories, distinguished by the form of ownership. With the exception of the fourth, all lands were tilled jointly by the co-operatives. These categories are as follows:

Figure 3

Agricultural small regions defined by the average golden crown value of the plough-lands



- 1) Lands in common co-operative ownership. These lands were acquired by the co-operatives by redeeming them from dead or retired members, i.e. these lands were purchased for a small amount of money, a transaction of only symbolic value.
- 2) Lands belonging to share-holders. Share-holders are those who contributed land to the co-operative and remained as members (also those who have similar legal status).
- 3) Lands owned by the Hungarian state, which the state offers for co-operative use, free of charge, and for an unlimited period of time.
- 4) Lands in common co-operative ownership but tilled by private persons. Private use of the co-operative lands became possible in the 1980s. In this case, lands were rented from the co-operatives, or special co-operatives formed (they were called “szakszövetkezet” and they tilled their own land). A small proportion of the land was already tilled by private persons before the systemic change. They had the primary right of purchase before land ownership was finalised, provided that they declared their purchasing intentions within a certain period of time after the first Compensation Act, or they had used the co-operative land for at least five years.

The co-operatives had to stake the land boundaries before 28 February 1992. This was the start of the change in ownership of the co-operative lands. They were then divided into four groups, which the co-operatives wanted to sell to different groups of owners. These were the following groups of lands: 1. the lands of the share-holders, 2. the lands worth 20–30 golden crowns, owned by former members and employees, 3. the land base designated for compensation and 4. land owned by the state.

The Act No. 25 of 1991 (the so-called first Compensation Act) said that state-owned lands could also be used for compensation if there was a shortage of designated land. In the opposite case, i.e. where the demand for land did not meet the supply, it would have been acquired by the local municipality, unless they abandoned it. In this latter case the land would have remained state property and cultivated by the former user. Contrary to this act, Act No. 2 of 1992 made a different decision about the same land base, allowing the present co-operative members to divide it among themselves. During the transformation of the co-operatives, this latter act was usually used, i.e. the lands were divided among the present (active and retired) co-operative members. The lands were divided either in proportion to the size of the property or each member acquired a piece of land of the same golden crown value. A part of these lands were the so-called residual lands, which, according to the estimates, meant on the average 10% of the former co-operative lands, calculated by golden crown value. Thus two different acts made two different decisions about the same land. In the legal confusion created by this situation it was local governments which lost out and the co-operatives which won. Local

governments rarely used their right to acquire land, because of the very short deadline and because they were not legally competent. On the other hand, the co-operatives had lawyers, whose competence made it easier for the co-operatives to react more quickly in their interests.

3.1 Lands belonging to share-holders

Forty per cent of the co-operative lands, calculated in hectares, and 42.6% in golden crowns, belong to the category of the land owned by share-holders. The proportion of these lands, to the total golden crown value of the co-operatives, varies from 31% (in Borsod-Abaúj-Zemplén county) to 56.6% (in Győr-Moson-Sopron county), as shown in *Figure 4*. 1,465,691 share-holders had 2,246,751 hectares of land (*Table 2*). Per capita, this averages 1.5 hectares of land, worth 17.7 golden crowns.

If we look at the total golden crown value acquired by share-holders, we find that in the first county, Békés, the share-holders have eight times more golden crowns than in the last county in the order, Komárom-Esztergom.

The most share-holders can be found in the agricultural counties of the Great Plain with high populations, headed by Bács-Kiskun, Hajdú-Bihar and Szabolcs-Szatmár-Bereg counties.

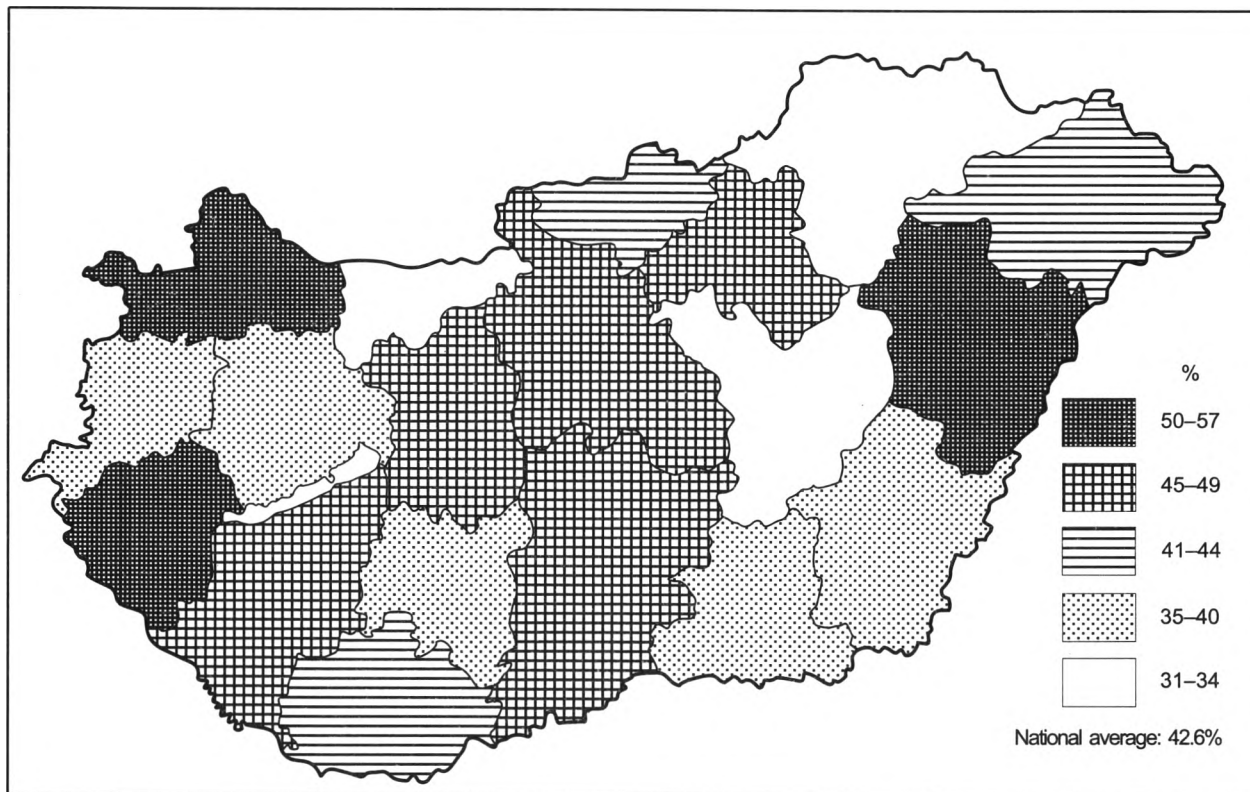
During the last few years it was the privatisation of this share-holder property which was the most difficult. Typically all that has been done so far is to mark out the boundaries. Thus, today, the owners can only register the golden crown value of the land, and they might also know its whereabouts. A long time will probably pass before those involved get the value calculated by area (hectares) and the lands are registered with a number.

The share-holders had the right to ask the land-distributing committees to mark out their lands, but the work of these committees is very slow. There are no exact data on the work that the committees carried out (they ceased to exist in late 1996). It is estimated that only some 10–15% of the lands of the share-holders were marked and divided.

A part of the lands owned by share-holders were sold. This “selling-off” took place within the co-operatives. Those older and worse-off co-operative members sold their shares of lands to the younger ones who wanted it. These younger members were usually leaders, often with a university or college degree. The purchasing price was usually 500 HUF per golden crown. These sales mainly took place directly after the transformation of the co-operatives. In legal terms, this process led to the concentration of lands, fragmented by privatisation, into the hands of a smaller number of owners. Sources of land becoming available to new owners are death and impoverishment. The result is that the less educated and older people lose their lands, to the benefit of the educated middle aged and younger ones.

Figure 4

Share of part-owners within the total of co-operative-owned lands (calculated in golden crown)



The largest part of the land of the share-holders remained in the ownership of many smallholders, but they often let these lands to the co-operatives. This is one source of the common lands of the transformed organisations.

3.2 Lands worth 20–30 golden crowns owned by the members and employees

After the first free election in 1990 the government was made up from three conservative parties. The leading party of this coalition and the prime minister, József Antall, sought to avoid confrontation with the former and present members and employees of the co-operatives. The solution that they found was that those who were working there at the time and had no compensation in land or share of land, were given a piece of land worth 30 golden crowns, if they were members; and a piece of land worth 20 golden crowns if they were employees. These lands were given from the common properties of the co-operatives. On this claim some 420,000–450,000 people were given land. They received 25.2 golden crowns on the average, i.e. they received the better quality lands. This is because they were given mainly ploughed lands, the golden crown value of which is obviously higher than that of the grasslands or forests. The average size of the land acquired this way was 1.6 hectares, which, although bigger than the former homesteads, could not provide a living. The largest number of such owners were in Szabolcs-Szatmár-Bereg and in Bács-Kiskun counties, the least in Győr-Moson-Sopron county (*Table 2*). In Szabolcs-Szatmár-Bereg nine times as many people received lands worth 30 and 20 golden crowns as in Győr-Moson-Sopron county. Calculated in golden crowns, the ratio between the two counties was seven to one. If the proportion of such co-operative members is high, it indicates a large-scale outmigration of the labour force; vice versa, their low proportion shows the presence of a stable labour force in the co-operatives of the region.

These lands were also affected by a change of ownership. Those members and employees of the co-operatives who had lands worth 20–30 golden crowns and were in financial difficulties sold their lands within the co-operatives. The customers were the aforementioned group of agri-intellectuals. The price was similar to that of the compensation lands or shares of lands.

The big sales took place in the first year following the transformation of the co-operatives. This process, even more than the one mentioned in the previous chapter, led to a situation where the less educated and poorer groups lost their lands, which became the property of the more educated and better-off people.

3.3 Compensation lands

Following the systemic change the Antall government passed four Compensation Acts. The implementation of these acts can be considered as complete. The co-operatives had to separate lands for compensation from the common co-operative

lands. Those eligible for compensation did not regain their original lands, which they had once been deprived of, they received compensation vouchers, instead. These vouchers allowed them to participate in a certain part of the privatisation process, e.g. in the privatisation of the land. A significant proportion of the former owners sold their compensation vouchers on the black market, usually for less than their true value. Thus there were people who collected many compensation vouchers which they used to purchase land. This is one of the less savoury aspects of the process, which has led to a situation where the land does not belong to local people. In such a situation the local residents have no sense of responsibility for the land that surrounds them.

The land compensation, i.e. land purchase, was carried out by auction. One could take part in the auctions in two places: where the land was situated and where the former owner lived in 1992. The land sold at auction became the property of the buyer eligible for compensation. At least three auctions had to be held in each settlement: if the designated lands were not bought at auction, the remainder was divided among the members who worked in the local co-operative during the distribution of vouchers. The lands of state farms and forestry-holdings were taken and sold for compensation tickets.

Reckoned by the claims made on the basis of the first Compensation Act, the compensation offices of the counties requested the economic organisations to mark a compensation land-base worth 47 million golden crowns. The co-operatives, state farms and forestries then extant marked a compensation land-base worth approximately 38 million golden crowns, of which the compensation land-base of the co-operatives comprised 33.8 million golden crowns (*Table 2*).

The compensation auctions started on 20 August 1992. The largest number took place from the spring of 1993 until spring of 1994, when the second free elections were held. At the beginning of the compensation land-auctions, the demand for the land was limited, as people were unable to conceive of a new future. By 1994, however, the demand for land greatly increased, but now the sales of the compensation lands had almost ended. This was partly due to the change of government, partly the fact that they had distributed all of the land-base designated for compensation. The first freely elected conservative Hungarian government did not want to designate new land-bases for compensation, and the second government – the Horn-government – promised to finish compensation quickly, which did not allow the allocation of further land-bases for compensation. In 1994 a socio-liberal government took over: they had always rejected compensation.

Comparing the counties with respect to shares, members and employees and the golden crown value of the lands given to those compensated, the biggest regional differences can be seen in the lands designated for compensation.

Until 9 November 1994, lands worth 36.7 million golden crowns had been sold at auction: approximately 2.1–2.4 million hectares of land. With respect to golden

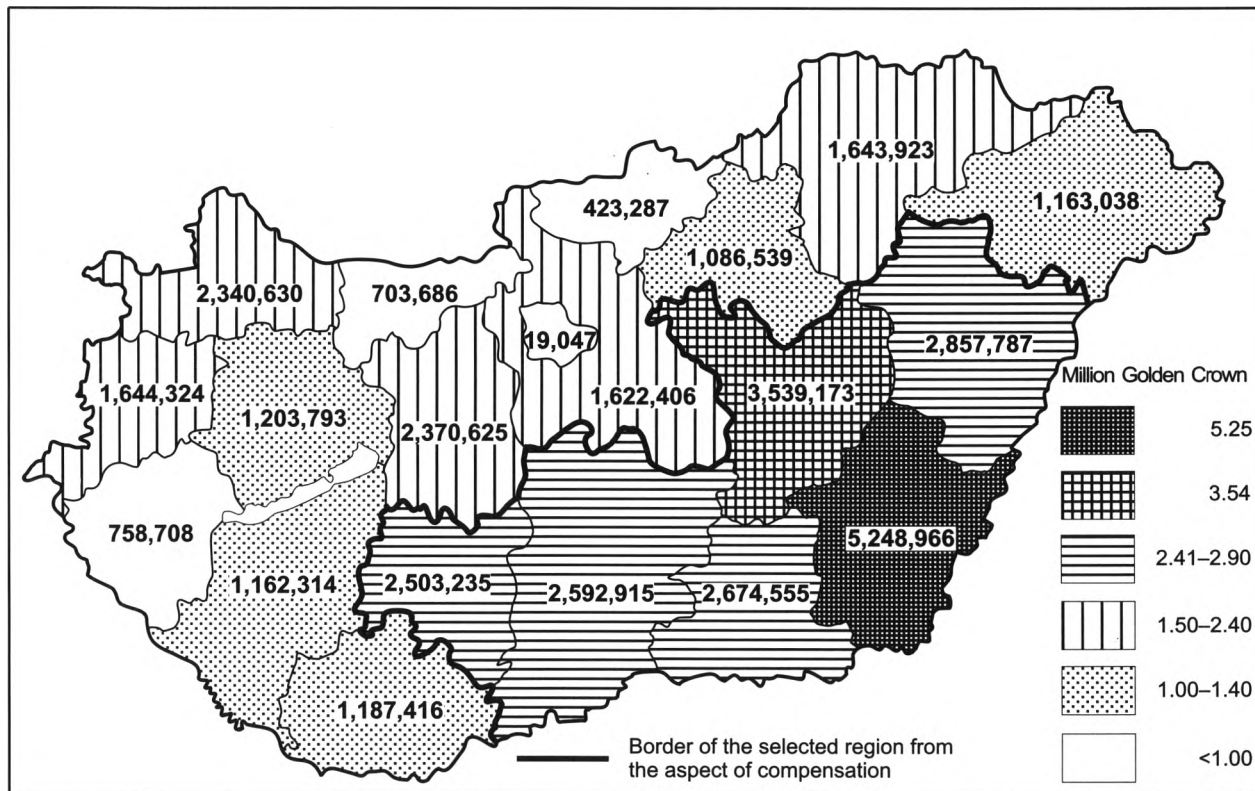
crown values sold, there is a 12.5-fold difference between the county first in the order (Békés county, 5.2 million golden crowns) and the last (Nógrád, 423,000 golden crowns) (see *Figure 5*).

Half a million people bought lands at the auctions. The biggest demand for land was in the three counties of the Southern Great Plain, also in Jász-Nagykun-Szolnok county north of these, the eastern neighbour, Hajdú-Bihar and the western neighbour, Tolna county. This region forms a homogeneous area which I call "*The Southeast-Hungarian agricultural region*". This is a traditionally agricultural region with a specific course of historical development. As long ago as the expulsion of the Turkish occupiers, a system of scattered farms evolved. This was the first place in Hungary where independent production by the peasantry appeared, mainly based on breeding and exporting cattle. Small and medium size estates were characteristic of this region. In the period between the two World Wars, this was the region where the bourgeois development of the peasant class was the most advanced. In the heyday of the co-operative era, intensive horticulture, viticulture and vegetable-growing were carried out in all of the small regions; in many places the private sector built on the local horticultural experience accrued over centuries. The background services and small scale processing based on vegetable growing, horticulture and viticulture necessarily evolved. As early as in the 1970s, the private sector was far more developed in this area, which is dominated by agricultural towns, large villages and scattered farms, far more so than in typical Hungarian settlements. This region today suffers from a high unemployment rate, but at least a significant part of the unemployed are able to create a semi-income by farming a mixed agricultural holding. In addition, in a few counties of this Southeast-Hungarian agricultural region other special factors contributed to an above-average demand for compensation. In Békés and Tolna counties the golden crown value of the lands is high; furthermore, the rate of forested areas is low in Békés (only 4%). Forests have low golden crown values. Finally, in this county the Smallholders Party is stronger than the average: this was the party that originally urged the return of the lands to the original owners. In Jász-Nagykun-Szolnok county a very strict co-operative organisation was carried out during the time of collectivisation. In this county the scattered farms, the last strongholds of the wealthier among the peasantry, were almost all dismantled, unlike in the neighbouring counties of Bács-Kiskun, Csongrád and Békés. More socio-economic damage had been done here. After 30 years, which seemed an appropriate time, the former original owners or their descendants wanted to restore their estates and their connected political power. At the same time other forces appeared who wanted and were able to prevent the smallholders from achieving their goals. Thus the socialists won in 1994 in those places where the smallholders had won in 1990.

Besides this Southeast-Hungarian agricultural region, the demand to purchase compensation lands was above average in Fejér and Győr-Moson-Sopron counties.

Figure 5

Golden crown values sold at compensation auctions (7 November 1994)



In Fejér the lands also have high golden crown values, which is why compensation seems to be frequent. In Győr-Moson-Sopron county, like in Jász-Nagykun-Szolnok, the strict co-operative policy rebounded. This was the first socialist county in that period, i.e. the first where a co-operative covering all settlements was established. It is generally true that if lands were taken away more violently, the former owners wanted them back more badly than in the cases when the lands were peacefully taken.

In Vas, Pest and Borsod-Abaúj-Zemplén the purchase of compensation lands was about average, in the other counties below that. We have to mention Szabolcs-Szatmár-Bereg county: that has all the features that the Southeast-Hungarian agricultural region is endowed with, except the traditions of the bourgeois development of the peasants. Szabolcs-Szatmár-Bereg county was traditionally a county of poor peasants. Such traditions do not encourage a process of purchase of compensation lands.

In Somogy county there is an exceptionally large difference between the registered demand for compensation lands (2.45 million golden crowns) and those actually purchased (1.1 million golden crowns). This can partly be attributed to the high proportion of ageing people in the population and the low population density, but obviously there were other factors contributing to this phenomenon.

In the other counties – Veszprém, Baranya, Heves, Komárom-Esztergom and Nógrád – the demand for compensation-lands is low, one factor being that the proportion of forests is higher than average. Also, these are usually smaller counties.

In the purchase of compensation lands not only the original land owners took part, but also those owners who had political compensation vouchers or vouchers for confiscated houses or businesses. Furthermore, as mentioned, those originally compensated often sold their compensation tickets at 70–80% of the face value. By suchland purchases – the so-called “pocket contracts”, i.e. contracts not registered in the books of the land offices – the buyers became the landowners. On this “market” a significant number of foreign (mainly Austrian and German, but in a few cases also Slovenian) buyers appeared, and not only in the villages along the borders. These days 60,000 hectares of land is supposed to be owned by foreign citizens through such pocket-contracts. According to the 1994 Act, foreign citizens are not allowed to purchase lands in Hungary: because the price of land is extremely low compared to EU prices. The Land Act sets the maximum of land that one owner could hold at 300 hectares or 6,000 golden crowns, and only private persons were permitted to have land. This means that companies cannot buy lands. The socio-liberal government (from 1994 to 1998) is about to change this latter part of the act.

The biggest demand for compensation-land could be observed in the neighbourhood of large towns and holiday regions which had large-scale in-migration over the previous decades. People bought land there as a form of investment. The

citizens of large towns are much better informed than the rural population. They are aware of the fact that once Hungary is a member of the EU, the value of land in Hungary will multiply. Their present investments stand to make a substantial profit in the future.

4 Privatisation of the state owned lands

Before the systemic change, 29% of the lands were owned by the state in Hungary. The proportion in the Netherlands, for comparison, is 1.2%. Most of the state-owned lands were managed by the state farms, forestry-organisations and wood processing companies. The state also had significant areas of land in non-agricultural use.

Approximately 20% of state farm land was put into the land-base designated for compensation. The amount of land given to the employees was about the same, 20 golden crowns per capita. The lands of the former state farms were also given to agricultural secondary schools and universities, for example. Nature-protection zones and national parks also received much state-owned land.

State farms were transformed into shareholder companies. The employees received a share of limited value, then the state farms were privatised. The exception are those 28 state farms where the state continues to have majority-ownership, for the preservation of biological stocks, seed production and for animal stock-breeding. It is typical that in the western part of Hungary the former state farms were acquired by mixed owners (Hungarian and foreign), now operating as organisations smaller than before (Incorporated companies, Limited companies., commandite partnership, holding) and hiring the land from the Hungarian Privatisation Company Inc..

At the same time, a significant proportion of the former state farms and their successor companies were closed down in a liquidation process. A large number of unemployment resulted. The situation was especially serious for those employees of former state farms who lived in farm-apartments. These were the aforementioned servants' flats. Although the residents could purchase the flats at a very low price, the cost of garbage collection, lighting and water supply of such places is equal to that of small villages. This problem is still unresolved in many places. Approximately 20% of the lands of the forestry and wood-processing companies were put into the land-bases designated for compensation. These companies were also transformed into shareholder companies and they lease the land from the Hungarian Privatisation Company Inc. Today almost 40% of the forests in Hungary are in private ownership, 60% owned by the state. This also means that today most state-owned lands are forested areas. Those forests now privately owned were mainly under the management of co-operatives; now the forest owners form associations for the management of their forests.

Table 3

Breakdown of the state owned lands (1989)

Managers	hectares (in thousand)	%
124 state farms belonging to the Ministry of Agriculture and food processing industry	976.2	36.6
5 state farms belonging to other ministries	23.1	0.9
Other agricultural businesses and budgetary organisation (18 state farms)	12.5	0.5
Businesses and budgetary organisations of other economic sectors (31 state farms)	9.1	2.6
Forestries and wood processing companies	848.5	31.8
Other forestries and budgetary organisations	167.3	6.3
Other state owned lands of non-agricultural character	570.9	21.3
Total	2,667.6	100.0

Source: Csete, L. 1995. Management 5. p. 28.

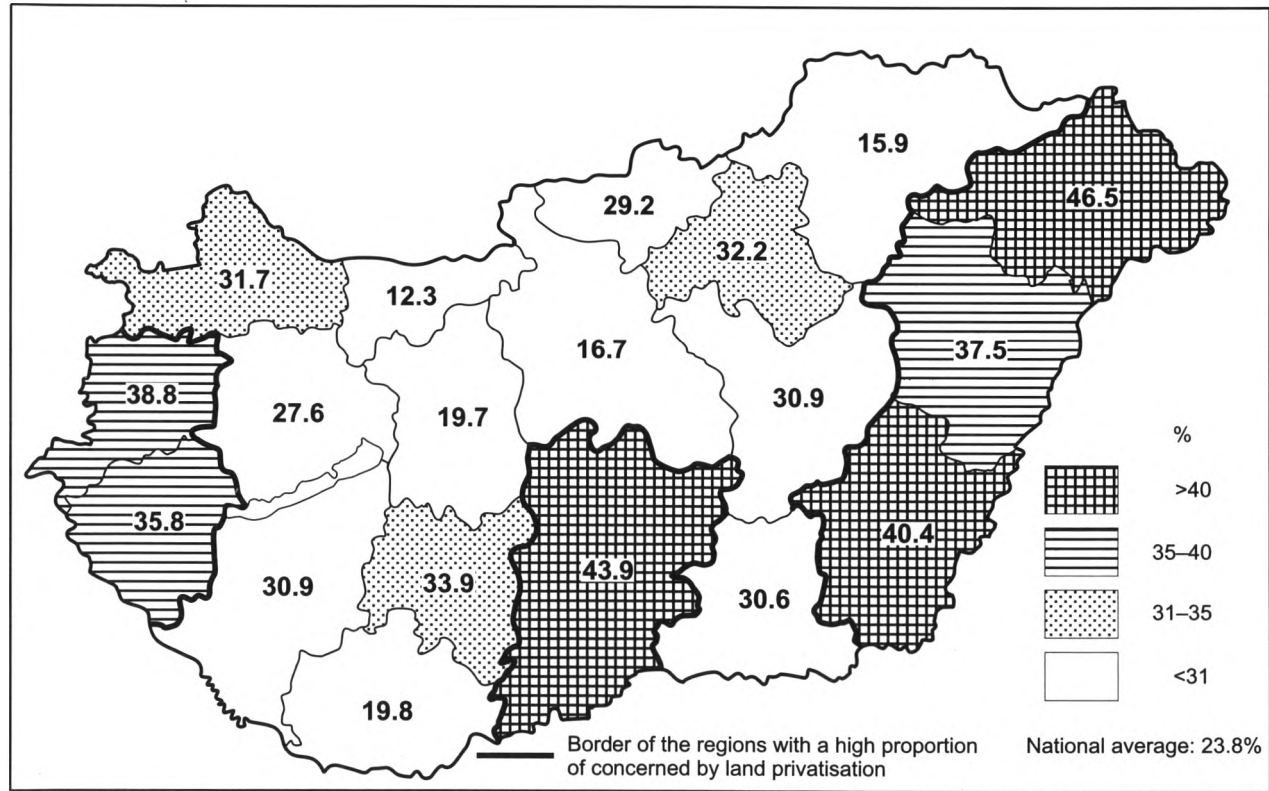
We have no exact data of how many state farm employees received lands worth 20 golden crowns during the implementation of the Compensation Act. (This number is estimated to be around 100,000.) If we do not take them into consideration, we can count 2,434,550 cases of land privatisation. Of course there were a few cases where somebody was compensated twice: but those cases aside, the number of citizens participating in the land-privatisation is estimated at about 2 million. On average, 23.8% of the citizens took part. Regional differences in this respect are significant (*Figure 6*). The highest proportion of the population involved in the land-privatisation was in the poorest county, Szabolcs-Szatmár-Bereg: 46.5%. The smallest proportion (12.3%) was in one of the most developed counties, Komárom-Esztergom.

Three macro-regions can be posited where the proportion of those participating in the privatisation is high:

- Szabolcs-Szatmár-Bereg, Békés, Hajdú-Bihar and Heves counties in the eastern part of Hungary. This is a traditionally underdeveloped agricultural region.
- Zala, Vas and part of Győr-Moson-Sopron counties in the western part of Hungary. It was probably the demand of foreign citizens for land which made the local population consider land as a valuable market commodity.
- Bács-Kiskun and part of Tolna county in the middle and southern part of Hungary. This is a traditionally good agricultural region where land is valuable, because *inter alia*, vegetable growing, horticulture and viticulture provided a supplementary, perhaps even the main, source of income for many families.

Figure 6

Proportion of citizens concerned in the privatisation of lands



What remains is the areas of industrial activity, mainly those of socialist industrialisation, and especially the mining areas: Komárom-Esztergom, Borsod-Abaúj-Zemplén, Baranya and Nógrád counties.

5 The effect of land privatisation on land use

The ownership patterns were redrawn during privatisation, resulting in a change in the size of the properties. First a deconcentration process could be observed. Many small owners emerged, which amounted to multiplying the number of economic organisations in the sector. This increase in the number of economic organisations cannot be explained only by the privatisation, it is also related to the introduction of market conditions. The figures are as follows: while in 1990 there were 535 economic companies with legal status, 3,848 such companies existed in Hungary in 1995. In 1990 we knew of 1,405 co-operatives, their number reached 2,117 five years later. In 1995 there were 2,727 companies without legal status and 1.2 million private holdings. This deconcentration process has not ended yet. One of the results is the appearance of a more balanced, threefold, structure that replaces the large and small holdings characteristic of the socialist era. In terms of land use it means that the average size of holding tilled by the individual large enterprises continues to decrease; thus even those large holdings still existing will be smaller than before. At the same time, the number of bigger smallholdings has increased. As a result of this process, medium size holdings have appeared which mainly operate as private enterprises, limited companies and commandite partnerships.

Land use in Hungary today is much more rational than we might assume from the ownership forms (*Table 4*): The number of those who use the land is significantly lower than those who own it.

So we can see that in 1995 more than one quarter, 27.9%, of the lands were tilled by economic companies and 23.7% by the co-operatives. Most of the remaining lands are tilled by private entrepreneurs. These increased significantly from 1994 to 1995, by 6–7%. The estimated number of such holders is about 1.2 million. Of these only 51 thousand are full time farmers, which is only 2.5% of all farmers. The rest can be divided into two categories: firstly those who keep a part-time holding mainly for self-sufficiency, maybe with some surplus production providing a supplementary income. The other group keep only hobby gardens. In the socialist era everybody could have a flat and a weekend house. Many people built some kind of weekend house on small pieces of land, maybe a cellar too if they also had vines. This house remains theirs and they cannot, or do not want to, sell them. In many cases they produce food for the household in the hobby gardens (vegetables, fruits, grapes), but possibly the investment exceeds the income. The same is the case with a large number of those who till 1–5 hectares of land. In a

survey that compared the Czech Republic, Poland and Hungary, Hungary had the highest number of smallholders (i.e. those who have less than 1 hectare of land). The researchers mention two psychological factors which, besides the Hungarian privatisation (the compensation process was particularly criticised), explain the lack of both willingness and determination to become a private farmer (often money is lacking, also). One of them is the 'worker mentality' which is close to that of the Hungarian servants of old. This mentality came from the impossibility of independent action: every day the workers were told just what to do. The other element is the lack of skills. It was only the upper and middle managers of the large farms who had adequate professional skills and information for private farming.

Table 4

Total of the lands by forms of management^{a)}

Nomination	1994		1995	
	thousand hectares	proportion in %	thousand hectares	proportion in %
Economic organisations	5,813	62.5	4,801	51.6
Economic companies	3,086	3.2	2,893	27.9
Co-operatives	2,727	29.3	2,208	23.7
Private entrepreneurs and other groups of the population	2,785	29.9	4,035	43.4
Private entrepreneurs ^{b)}	2,074	22.3	2,700	29.0
Non-agricultural use ^{c)}	705	7.6	467	5.0
Total	9,303	100.0	9,303	100.0

a) Land use; b) estimated area; c) holiday homes, hobby- and other land properties.

Source: Hungarian Statistical Pocketbook, 1995. KSH, 1996. p. 176.

The privatisation of land in Hungary amounted to the fragmentation and deconcentration of land-holdings and economic organisations. Deconcentration, on the one hand, has been halted by the implementation of legislation dealing with privatisation; on the other hand, it continues because of the effects of the present Inheritance Act. The fragmentation of economic organisations continues, which is attributable to the fact that privatisation was a political initiative, also to the penetration of the market economy. Simultaneously with the changes in ownership, the concentration of properties also began. This means not only the concentration of tillage, but also that of ownership. Many aged, unskilled and financially disadvantaged owners sold their land as soon as they could to younger and more skilled agri-managers. Although the majority of these new owners do not, or only partly, run private holdings – their lands are still tilled by the co-operatives – it is still them and those already farming, with significant peasant roots and secondary or

higher education, who will be the main representatives of the future agricultural bourgeois class.

Thus this is the point where the descendants of the former landowners and the agricultural intellectuals of the past few decades meet. The question emerges: what will stimulate the present agri-management of the large farms to become private farmers? The answer is to be found in the anticipated EU accession. It is very difficult, practically impossible, to find one piece of legislation on the co-operatives which complies with EU norms and thus could help Hungarian agricultural co-operatives to survive in their present forms (which means a predominantly producer, and only partially service and marketing, organisation). In addition, the agricultural support system of the EU does not apply to either the small or the large farms. In the Common Agricultural Policy (CAP), subsidies are mainly accessible to businesses of judicious size, enabling a traditional farming family to sustain themselves at an economically reasonable level. Hungarian agricultural policy has to take this into consideration.

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REGIONAL CHARACTERISTICS OF THE DEVELOPMENT OF TRANSPORTATION AND TELECOMMUNICATION DURING THE SYSTEMIC CHANGE

FERENC ERDŐSI

We believe that the causes of the socio-economic transformation, which began at the end of the 1980s and is still in process with significant regional differences are not only attributable to global political trends, to the breakdown of the balance of power among the Great Powers and the break down of internal political structures (to the “embezzlement” of existing socialism). The cases of transformation are also processes, and to the beginning of a new economic era on a global scale, to the latest period of informational-communication revolution.

Certain stages of innovation can be detected in the long history of the development of communication in a broader sense, which encouraged the revolutionary transformation of social formations:

- printing technology (“Gutenberg-galaxy”) ended the period of feudalism,
- television and broadcasting, especially Xerox and telefax as well as telematics, undermined the ideological monopoly of socialism and later its socio-political system, too,
- the internet with a continuously growing intelligence (in the year 1997 more than two million people over the world used internet frequently), reforms all segments of yesterday’s “valid” capitalism, reorganises power relations and “softens” the socio-economic system based on the omnipotence of capital.

The electronic communication industry, information technology and telematics are nowadays not simply world wide propulsive industries but the basis of the new “digital global economy”.

Parallel to the technical-technological turn, as related to post-industrialism or the Konratiev cycle and its repercussion on Central and Eastern Europe certain changes occurred in the Hungarian political economy. These changes occurred in the following:

- external policy and economic orientation (the relationship to the West became primary and there was a considerable decline of Eastern European markets),
- property relations (privatisation, the spectacular entrance of foreign capital, the shrinking of agrarian and especially industrial production, the rapid growth of the service sector due to the intensification of information economy),
- the restructuring of the employment structure (as a result of which a small business and civic layer emerged with specific lifestyles and expectations), which have affected certain regions of the country differently and have increased previously existing regional development disparities.

These factors created new – and importantly – more advantageous frameworks for the domestic communication sector (in the broader sense), which contrary to other sectors became for objective reasons the beneficiary of the systemic change.

Overall, the communication sector not only avoided a setback, but it was able to improve its position (both in absolute and relative sense). Within the transportation, sector the reduction of the railway system is compensated by the growth of road and air traffic. Information technology and telecommunications as an integrated system, proved to be the most successful and most rapidly developing sectors.

Telecommunication and transportation sectors yield only 5.3–7.4% of the national GDP and provide 8.4–9.0% of employment. Yet their significance to the economic, social and cultural life of the country is much greater due to their indirect (acceleration and multiplication) effects. They are key sectors which can, with their quality, capacity, prevalence and exploration capability (together with other branches), significantly affect and differentiate regional development.

1 Changes within the transportation sector

1.1 Processes and factors affecting Hungary's transportation situation and orientation and their expected consequences

The transportation system in Hungary is in a phase of transformation due to geopolitical change and continent-wide institutional rearrangement.

– *Advantageous circumstances*

- *South Eastern European countries and Asia Minor can increasingly depend on the Southeast–Northwest continental (road and rail) transit corridor crossing Hungary for their dynamically broadening Western relations with the West (Erdősi, F. 1993),*
- *The Danube–Rhine–Main channel provides a generous opportunity for a Southeast–Northwest transcontinental waterway.*

– *Disadvantageous circumstances*

- *Among the West–East transcontinental transportation corridors, the significance of the transportation mega-corridor running through the German–Polish Plain connecting the northern parts of Western–Europe to CIS states will grow to such a high volume that it will overwhelm other corridors. Hungary is located too far from this mega-corridor for it to be able to share in the advantages brought by this transport route.*
- *In several states of the European Union and in other developed countries (such as Switzerland), high speed railway networks will be completed as a comprehensive international network (Molnár, É.–Zsolnay, T. 1995). The network will attract traffic and may become such a significant regional development factor that the peripheries like Hungary, not enjoying its advantages may end up in quite a disadvantageous position.*

1.2 Total performance trends and the sub-sectoral structure of transport

The total tonnage of heavy goods transported decreased after the systemic change. The (structural + prosperity) crisis in industry, the enormous decrease in agricultural production, and consequent radical change in commuting resulted in the decrease of long distance and local public passenger transport activity.

If one considers private (car, motorcycle, bicycle) transport as well, the *volume of total passenger transportation activity grew*. Finally, the traffic load on public roads increased primarily for three reasons:

- *The motor vehicle*, especially the car and small truck (pick up, “shovel” cars) *stock grew significantly* (as opposed to 1,789,562 in 1988, there were 2,245,000 cars in 1995);
- *the long distance performance of motor vehicles* (parallel to a tonnes kilometre performance loss) *also increased*. (The business layer's mobility is extremely high; also, the *shipping demand by small manufactures* is of a *smaller volume*, so that small loads but with regular shipping is more profitable);
- (as a result of the Yugoslav war) *the number of tourists arriving to the country with their own car also grew* similarly to the transit road traffic between Western and Southeast–Europe (especially the periodic and jerky type of traffic generated by guest workers travelling home and back, puts a very high load on the network).

Hungary accomplished the change in modal split according to the global average and in some respects even faster than the average. *The road traffic increased proportionally, both in passenger* (in short and medium distance) *and goods transportation* against the railroad and water ways. Behind the decrease of pipeline transportation in weight and simultaneous the growth of goods tonnes kilometre, we can identify the fact that less oil and goods are transported on longer distances than before (which lessens efficiency). Air transportation of goods shows the most dynamic growth due to lengthened air ways. (Table 1).

Table 1

*Division of goods transportation by air according to sector
(modal split) in percentages*

Sub-sector	Volume of goods %		Goods tonnes km	
	1990	1995	1990	1995
Railroad	39.1	28.4	39.9	35.6
Local road transport	51.6	58.2	14.8	42.1
Water ways	1.9	1.3	34.4	5.6
Air transportation				0.1
Pipelines	8.4	12.1	10.9	16.6
Total	100.0	100.0	100.0	100.0

In the long-distance inter-urban passenger transportation, only air transport was able to increase its performance in absolute volume. Regarding local traffic, private vehicles (mostly cars) increased their share much faster than public passenger transportation.

1.3 Regional features in the modification of transport infrastructure

1.3.1 Network modification

There were no significant changes, only some modifications, in the length of the linear transport network in the first half of the 1990s.

a) The railway system

The length of the railway in Hungary decreased by a bit more than 300 km (or 2.6%) mostly as a result of the elimination of industrial lines. Double-track pairs also became shorter, while electrified lines were lengthened only by one hundred kilometres (previously rapid electrification has become rather slow).

A strongly selective development- and maintenance policy further differentiated the railway system.

The reconstruction and modernisation of main railway routes continued (especially that of the Budapest–Hegyeshalom main international track), but the majority of investments favoured the Transdanubian region; as the Hungarian State Railways could afford less and less resources for secondary lines with less traffic or even for the maintenance of some secondary main lines (such as the Szigetvár–Barcs–Gyékényes railroad line), the technical performance of most of these lines worsened, some to such a high degree that the speed limit had to be decreased radically and, due to the lack of passengers, passenger transport was completely eliminated. The process of amortisation and depreciation concerned all macro-regions of the country.

b) The public road system

◆ *The development of the national public road system by road-categories*

There were only smaller proportional shifts in the hierarchic structure of the public road system.

- the length of the “magisterial” (primary main road) network and roads (ascents) connected to motorways increased by 300 km;
- *the highest km-length growth is to be found in the stock of access roads partly through the construction of new roads and partly through the re-qualification of previously secondary roads (Table 2).*

Table 2

National road system by road type, in kilometres

Year	Primary main road	motor-way	speed roads	secondary mainroads	access roads	spur	roads leading to stations	access roads for motorway	total
1990	2,237	267	82	4,499	17,527	4,810	553	115	29,741
1995	2,475	335	85	4,390	17,853	4,680	526	159	30,073

Within the public road system *the proportion of roads with asphalt or bitumen pavement grew* relative to all traditional pavements. Yet users are still forced to use within the national road system more than 2,000 km of macadam or unpaved roads.

◆ *Regional features of public road system development*

The majority of road construction is concentrated in the Transdanubian region (mainly in North Transdanubia).

- *The only motorway between Győr and Hegyeshalom of considerable length (43 km) was constructed in this region, which is much more significant than its length; the Budapest centred Hungarian motor-way system is connected through this track to the continuous road system of Europe through Austria (its significance is comparable to the '50s, when the Hungarian railroad system was connected to the Austrian, which was in turn connected to German, Czech and Italian railroads);*
- *Main road bypasses around cities were also constructed mostly in the Transdanubian region. The M0 bypass around the capital, where only stretches for few kilometre on the Great Hungarian Plain;*
- *Despite of unfavourable natural features, the most bicycle-path construction benefited once again the Transdanubian region (from the aspect tourism bicycle-path construction has special importance to the so called "Szigetköz" area near the Austrian border and in the Hanság region);*
- *In numerical terms, but as compared to its length also in relative sense, the majority of the border stations on roads were built alongside the Austrian border;*
- *The representation of Transdanubia was also high in the construction of access-roads and the nationally rarer spur construction.*

Compared to basic road infrastructure, there was a *much more dynamic development in the field of supplementary infrastructure*. In the first place, *public filling stations* shall be mentioned, which function practically in the framework of a *free market*. Several European a world-wide companies (such as TEXACO, AGIP, SHELL, BP, ARAL, ÖMV) have extended their networks to our country and MOL

(the National Petrol Company) and smaller domestic enterprises have increased the number of their filling stations. On a national scale, the number of "petrol stations" is almost four times higher, than before. The volume of growth in Bács-Kiskun, Csongrád, Fejér, Komárom-Esztergom, Szabolcs-Szatmár-Bereg and Tolna counties surpassed the average, while in the capital city and Borsod-Abaúj-Zemplén, Heves, Jász-Nagykun-Szolnok, Veszprém and Zala counties growth was below average. *The growth in the number of filling stations was thus fulfilled with significant regional differences. The intensity of growth is quite coincidental, since it was neither connected to the rise in the number of cars, with income values, the location of international transit roads, nor with more general development incedes (GDP).*

1.3.2 Regional division of road vehicles

In the case of road vehicle parking, the rise in number of trailers and vans (31.1%) was predominant, and similarly to the previous period, lorry parking grew by a similar volume (30.3%), especially through the mass usage of small lorries. The growth of car parking was also significant (15.5%) and the quality change, which is hardly detectable in quantity, is at least as important; the obsolete and polluting Eastern-European products were replaced by Western cars (in the year 1990 the proportion of Eastern cars was 91.3% while in 1995 it was only 65.1%).

Meanwhile, the number of vehicle types decreased that serve public transportation objectives (such as coaches), as well as vehicles for extensive agricultural production (tractors). The same occurred to vehicles such as motorcycles, which can be substituted by more comfortable and safer cars.

a) Degree of car supply

The car supply developed quite independently from the development level of the public road system (density and proportion of quality roads). Its close connection with income conditions (population wages and GDP) and infrastructure is obvious.

As regards the degree of car supply, the regional reorganisation has begun already in the 1980s.

At the turn of the 1970/80s, the leading counties in terms of the degree of supply were those with significant revenue-generating mining and heavy industry. (Therefore for a long time Baranya county was at the head of the list.) In the second half of the 1980s, counties excelling in the private economy, like intensive agricultural production (such as household co-operative farming) and in (legal or even illegal) trade, improved their position significantly. As a result of this phenomenon the *sudden advance of Bács-Kiskun, Tolna and Zala counties was spectacular.*

Since the 1990s, the mining and heavy industrial regions lost from their position.

Baranya county fell back from third to fifth place, Komárom-Esztergom county from 7th to 13th place, and the weak position of Borsod-Abaúj-Zemplén and Nógrád county remained unchanged. But compared to the national average they could not improve their specific degree of car supply (Table 3).

Table 3

Changes in the degree of car supply

Capital city/county	1990			1995			% of 1990
	number of cars	1000 inhs.	range	number of cars	1000 inhs.	range	
<i>Budapest</i>	471,790	223	1	569,543	298	1	120.7
<i>Transdanubia</i>							
Baranya	85,341	198	3	90,743	221	5	106.5
Fejér	77,389	177	12	91,988	216	11	118.9
Győr-Moson-Sopron	84,157	191	6	99,305	233	3	118.0
Komárom-Esztergom	61,865	190	7	64,895	208	13	104.9
Somogy	67,616	189	9	71,843	212	12	106.2
Tolna	51,051	192	4	54,683	219	6	107.1
Vas	52,819	186	10	59,076	217	9	111.8
Veszprém	74,714	190	8	84,444	223	4	113.0
Zala	61,238	192	5	65,659	218	7	107.2
<i>Great Hungarian Plain</i>							
Bács-Kiskun	114,971	204	2	130,148	240	2	113.2
Békés	66,606	155	16	70,673	175	17	106.1
Csongrád	79,908	178	11	93,338	218	8	116.8
Hajdú-Bihar	79,931	141	17	90,838	165	18	113.6
Jász-Nagykun-Szolnok	60,350	137	18	65,678	156	20	108.8
Pest	169,187	174	13	213,836	217	10	126.4
Szabolcs-Szatmár-Bereg	76,173	130	20	101,641	177	16	133.4
<i>North-Hungary</i>							
Borsod-Abaúj-Zemplén	109,672	139	19	118,895	159	19	108.4
Heves	59,706	173	14	63,971	194	14	107.1
Nógrád	40,060	172	15	42,458	190	15	106.0
<i>Totally</i>	<i>1,944,553</i>	<i>181</i>		<i>2,245,395</i>	<i>219</i>		<i>115.5</i>

The counties late improving their position are geographically far from each other:

- in the context of general economic status and trends, they enjoy the best position and in some cases the counties in North and Central Transdanubia (Győr-Moson-Sopron, Fejér, Veszprém, Vas) can take advantage of tourism.
- the economic catalyst for the southern Great Hungarian Plain is Csongrád county prospering from intensive agriculture and frontier traffic;
- Pest county draws maximum benefit from advantageous opportunities offered by its location near the capital city (such as its suburban role, special role in the workforce and food supply of the capital city, its role in short holidays and vital entrepreneurial activities);
- *it seems quite paradoxical that the highest improvement (33.4%) of the degree of personal car supply is to be found exactly in the most underdeveloped county of Hungary, Szabolcs-Szatmár-Bereg county (the "Tibet" of*

Hungary); more than 150% faster than the improvement of traditionally leading Budapest! The development of the public infrastructure network in this county was also spectacular (deriving mostly from state and local resources). *The income of the population from the black and grey economy, and other sources not detectable by the authorities, had quite an important role in the rapid growth of the number of cars.*

Personal need appears as a motivation for car ownership only in the smallest villages in extremely peripheral locations far from cities, where, due to the poor quality of public transportation services (only one bus line per day, bus stops located 2–4 kilometres apart), people are forced to spend on cars even over their financial possibilities, in order to be able to go to work or to sell their products at the market. Between the degree of car supply and settlement category there is usually a correlation, but the higher degree of car supply in small and tiny villages also creates some inversion in the chain of interconnections.

b) Degree of motorcycle supply

The number of motorcycles fell in most counties as a result of car purchases, while in Budapest it grew significantly (with almost 30%) (even though travelling by motorcycle is the most dangerous here due to large traffic, yet easy parking and manoeuvring makes travelling on two tires attractive). Motorcycle parking grew in Tolna and to an insignificant extent in Pest and Komárom-Esztergom counties. It is to probable that, besides objective factors also provincial subjective factors had a role in this increase (motorcycles are again fashionable and among the young they represent a status symbol).

c) Degree of bus supply

Bus parking decreased to the highest extent, especially in previous employment catchment areas with intensive commuting mobility generated by the attraction of extractive heavy industry and construction industry.

- There was an *over 30% decline* in Zala in terms of the territorially scattered oil and gas-mining (with a territorial concentration), in Tolna county (previously the source of commuting into the coal mines of the Northern Mecsek mountain and Komló, as well as to the industry centres of Fejér county), Borsod-Abaúj-Zemplén (which was the second most important employer right after the capital city and where the most workplaces were eliminated).
- Bus parking in Baranya county fell back with *about 20–30%* (as a result of the shrinking of uranium and coal mining) in Bácskiskun (due to an intense decrease of commuting into the previously Eastern European market oriented food processing centres of the county), in Békés county (for similar reasons as in Bács-Kiskun), in Heves (resulting from the collapse of sulphur-rich coal extraction, quarrying and war industry), in Komárom-Esztergom county (as a result of the regress of coal and gravel extraction, building material industry and partially the heavy chemical engineering) and in Nógrád county (due to the decline of coal and gravel extraction, heavy industry and pottery production).

The loss of bus parking was the smallest in regions where the decrease of the number of workplaces was the least and the majority of buses served anyway for tourism. Therefore, the loss of the bus parking in Győr-Moson-Sopron, Pest and Veszprém counties remained under 15%.

d) Degree of lorry and trailer supply

The lorry parking grew in almost all counties to some extent depending on the volume and intensity of (legal and illegal) entrepreneurial activities and their vitality, but with significant territorial differences:

- *Intensive growth* is found in Pest, Győr-Moson-Sopron counties and in the capital city, Budapest (which means 72.0% and 65.4% respectively and 55.5% for Budapest);
- *Significant* (over 40%) was the *volume* of growth in Bács-Kiskun, Csongrád, Fejér and Szabolcs-Szatmár-Bereg counties;
- *the smallest* (less than 20%) in the heavy industrial “corrosion zones” (Borsod-Abaúj-Zemplén and Nógrád counties) and in the extensive agricultural Békés county.

In contrast to the lorry parking (especially as a result of the reorganisation of extensive farming), the decline of trailer parking is characteristic throughout the regions:

- the highest (over 40%) loss was in the capital city and especially in the industrial counties (such as Baranya Borsod-Abaúj-Zemplén, Hajdú-Bihar, Komárom-Esztergom, Nógrád, Somogy, Veszprém and Zala counties);
- those counties, that could preserve trailers most successfully were the majority of big estates that were able to maintain production or private farmers and to purchase and maintain the majority of trailers (Szabolcs-Szatmár-Bereg, Pest counties).

1.3.3 Water and air transport infrastructure

There were only *few changes in this field*, but their balance is also dominated by Transdanubia:

- The construction of the *Gönyű Danube port* near Győr (Transdanubia) started;
- 80% of the investments in connection with passenger carriage on waterways (such as ships and ports) *concentrated in the tourist shipping on Lake Balaton*;
- *among the previous military airports*, Debrecen performed best in the transformation (conversion) *to civil use* (the Region East of the Tisza river), air links for passenger carriage were established with smaller and medium size passenger aircraft to several neighbouring countries (Austria, Germany Ukraine) and seasonal charter flights were launched into certain Mediterranean holiday resorts (such as Corfú);
- the number of ferries fell back from 83 in 1990 to only 74 in 1993. (New local governments were forced to shut down ferry services with less traffic that were previously managed by local councils, since they were operating at loss. These were located mostly on the Tisza river in the eastern part of the country.)

1.4 Development of services

1.4.1 Railroad

a) Changes in the distance category structure of passenger carriage

Railway passengers fell back as a whole and its *structure by distance categories* also changed significantly. Today, the railroads are today used rather:

- for shorter distance, for travelling within the *neighbourhood area* (especially to work for a distance of maximum 30 to 50 km, mostly from the agglomeration around the capital city), while
- the railroad, with its express and inter-city (IC) lines, ensuring a comfortable and fast trip, plays an increasingly important role in the *accessibility of the capital city from other, farther regional centres* (located about 150–240 km from the capital city).

Within Hungary *the number of railroad costomes decreased most rapidly in medium distances* (such as 50–80 km), which means exactly those trips which can be made more economically by car or possibly by bus.

This distance category, where the main motivation for travelling is using professional and administrative services provided by urban agglomerations, the distance is too big for that. For such a long distance people usually travel for recreation, holiday or possibly in connection with business activities. *Since travelling this distance by train is the least comfortable* (dirty and slow trains departing from substations, possibly being forced to change trains, which again costs time, trains depart rather rarely) people are thereby motivated to choose private vehicles.

b) The intensification of Budapest centred inter-city traffic improving and accelerating passenger traffic

Frequently running *domestic inter-city trains created a completely new situation* regarding the quality of the main line of railroad traffic. These services are provided exclusively as a radial structure converging in the capital city. There are no significant regional differences in the availability of the network: yet surprisingly some county seats and other larger cities in the Great Hungarian Plain are in more favoured situation than several urban areas in Transdanubia. (Among the county seats only Eger, Salgótarján, Zalaegerszeg do not have IC connections yet.)

Among the new services of the Hungarian Railway Company we can find the running of such transversal fast-train pairs, which:

- connect through Budapest (Western and Eastern) peripheral regions of the country,
- or, since running for from Budapest create connections as real transversals – in some cases even over the state borders as “quasi international” trains.

c) *Changes in the service conditions of shipping of goods on the railroad and also the changes of its structure by distance categories*

The proportion of short and medium distanced shipping grew significantly according to distance categories of good transportation on the railroad, while good transportation as a whole definitely fell back. This phenomenon contradicts the efficient division of labour between different transportation types, since within a distance of 60–80 km the most efficient vehicle is the lorry and train use convenient only on longer distances.

These phenomena, which seem to be quiet irrational from a regional economic approach has the following causes:

- *the most intensive decrease of long distance shipping was in the transportation of coal, stone and building materials, caused by changes in energy use and the decrease in construction,*
- *the railroad could in a relative sense maintain its role in transporting raw materials from nearby regions to bigger processing companies (like sugar factories, mills, hemp processing factories and even into some preserving factories, especially where the production of raw materials was organised anyway the railroad).*

The Hungarian Rail Company further decreased the number of stations of a higher loading capacity, especially on the secondary lines of Southwest Transdanubia with scattered villages and in the region of the Northern Mountains, while accelerating good transportation between settlements alongside the main lines through introducing fast trains running in the night.

d) *Inter-settlement and long-distance (interregional) bus transportation*

The inter-urban bus transportation network (inter-settlement, inter-regional) was accomplished by the '70s, which means it connected almost all settlements of the country apart from some dwarf villages. The *inter-settlement bus network* changed in the near past more in terms of frequency, *the Volán bus companies decreased the number of short distance lines* (since commuting also was reduced to half) and *in their business policy more emphasis was laid on inter-regional connections. They found new marketing possibilities in transversal relations inter-connecting regions.* As a result of this effort, the number of inter-regional bus lines increased and not only within certain regions of the country (like Transdanubia, Great Hungarian Plain, or North Hungary), but also between the macro-regions. *New lines directed towards West–East, and Northeast–Southeast between Transdanubia and the Great Plain and lines (in some cases even 400 to 500 km long) directed North–South, connecting the Great Plain and North Hungary, enriched especially the interregional connection of cities lacking direct railroad connections. Since travelling by the bus lines “spanning” across the country through several stops and with a very low speed is still quite time-intensive, and these lines have less passengers travelling throughout the whole distance, the travelling public changes several times (Erdősi, F. 1996). Despite this and as a result of the increase of the number of interregional lines, the trend of decreasing the average travelling distance stopped in the middle of 1990s. Later it showed a slight growing trend. Similarly, the decrease in the number of passengers and travelling distance also changed.*

e) Local traffic and transport

The length of bus lines within the settlements continuously decreased in the period between 1990–1995 (with a total of 8.5%). On the national scale the total number of passengers was falling back until 1994 and ever since there has been a slight growth. The traffic increase was in the capital city more apparent while in other, regional centres the decrease in the number of passengers went on. *The highest volume of the decrease is to be found in smaller settlements, which fell back to one third of the number of passengers in 1990.* The decrease in the number of passengers and the availability of service are closely connected. If there are not enough passengers relative to a convenient (and efficient) quality service. The service is eliminated. As a result, *the number of cities supplied with a bus network fell back from 203 to 138, and the number of supplied settlements from 73 to 31, in the period between 1990–1995.*

Therefore, the volume of public local bus-supply devaluation was lower in Budapest than in the rest of the country, and naturally it affected the regions with a small- and medium-size settlement structure and tiny cities (receiving the city status first' in the past couple of years) more disadvantageous. In the field of mass transportation the biggest losers of the systemic change were the regions with a scattered settlement structure, Transdanubia and North Hungary.

The local trolley bus and tramway service is operating only in the four large cities of the country. The tram and trolley in Miskolc proved to be the most viable and competitive, since it could maintain its travelling public while in Szeged the number of passengers fell back to 38%. Even in Budapest it decreased 16.6% (in the peripheral districts of the capital city the tram infrastructure is so far outdated that the majority of passengers choose the not much more expensive but much faster bus service).

1.5 Dilemmas of transportation development

The socio-economic changes urged the creation of the new “Transportation Concept” in 1996. The approach of the concept met the new requirements to some extent. *The future development of transportation raises several questions, which received less emphasis in the Concept.* In our opinion these are as follows:

- In the field of transportation and telecommunication, the joining of the European Union, beyond the approximation of laws (deregulation, for instance) and infrastructure compatibility, puts the matter of *sub-sectoral structure* in a new light due to the following contradictory consequences:
 - *The European Union does not* (or only exceptionally) *support the construction of motor ways or main roads, but on the other hand it strongly prefers the construction of high speed railroads* and the reconstruction of suitable traditional railroads. The purpose of this policy is to attract the major part of future traffic growth to more environment friendly (electrified) fixed roads. In contrast to this, *in Hungary the development policy of traffic and transportation networks addresses a completely different sub-sectoral structure* with the construction of several new motorways and expressways, while it is content with the reconstruction of the main track lines and it hardly plans the construction of new railroads.
 - *Compared with EU norms, the density of the railroad network in Hungary (notwithstanding that in the 1960/80s a significant part of the railroads was shut down) is still too high* (due to the high number of secondary lines with less traffic). *Therefore, to create EU compatibility*

the density of railroad network should be decreased. But the Concept counts on a very small volume of network reduction (probably because the policy is not ready to undertake the unpopular measures of eliminating secondary lines). It is questionable whether a compromise can be found and accepted between these two paradoxical measures. In the 1970s, the elimination of railroads had catastrophic consequences on the concerned regions. Nowadays – as a result of changes in car-supply and transportation demands the elimination of secondary lines with less traffic will probably have only moderate disadvantageous impacts, than two or three decades ago, therefore a moderate network reduction seems to be from economic aspect convenient. But the elimination of the weakest branch lines in great quantities will afflict preliminary less developed, peripheral rural regions and therefore contribute to the further growth of regional inequalities.

- Although the EU lays more emphasis on the environmental aspect in comparison with the domestic public opinion or the legislators, with the strengthening of green movements as political actors, *more pressure may be laid against the high scale development of (especially main) road transportation.* If the demand (or rather practice) – getting more emphasis in the West – of stopping the further concentration of traffic and the refusal of traffic canalisation. Thus the concentration of traffic on highways will “carry over” to Hungary, in this case such a switch in the transportation policy will serve *the interest of the rural areas so far, that the main transportation axis, corridors between larger cities, transforming with the time to linear economic-settlement space structures, cannot become too emphasised.* (Increasing the density of the branch-road network could improve the traffic circumstances of villages and the coverage of rural areas). *Beyond all rationality, the implementation of this development direction is less probable.* Partly due to the purpose of the implementation of transportation corridors offered to Hungary by the European Union, and partly due to the pressure by the first and second generation drivers with the cooperation of concessionaires the national network of motor ways with international functions seems to have been implemented. *Since the first routes of the network will be centred about the capital city centred according to the law of priorities, they will for a long time determine the basic spatial structure of the country. Productive forces (like capital, work force) will accumulate along them, while they will put a strong suction effect on the territories located further away from them, which will experience the phenomenon of “deflation”.* (The lessening of population as a result of migration and a partial migration of the productive forces.) *An extraordinarily intensive concentration of productive forces will be generated by the construction of the high speed railroads, which probably will attract development forces as huge “magnets”.* This danger is more and more emphasised by scientists in the West. The European international network, which will be similar to the French TGV, German ICE or Italian Direttissima, may – due to its coastlines and in the interest of efficiency – have only a very low density, therefore it will only connect capital cities and some other metropolises and probably encourage the further development of these cities and strengthen, from regional developmental aspect undesirable processes. In Hungary for instance the first section of the high speed railroad from the direction of Vienna would only connect Budapest. (The one existing with a maximum speed of 160 km/hour is only a “quasi high speed line”.) Later the Budapest–Beograd–Istanbul super railroad would be constructed. What will be the consequences of construction? It is obvious, *that the North – Transdanubian “success” region would receive a more emphasised linear character* (with the growing together of the development centres of Bicske–Tata, Komárom–Győr and Mosonmagyaróvár–Hegyeshalom, located all alongside the mega-corridor) *and considering its development level would be even more accentuated in comparison with other Hungarian regions, and would accelerate the migration from the eastern and southern regions of the country.* It is clear, that even the M5 has some concentrating impacts, but it is verifiable only in the agglomeration of the capital city in a wider sense. The construction of the M5 will be carried on, and within a short time (at the beginning of the next decade) will be connected to the expressway network towards the Balkan in the Voivodine and

Temesköz. If it will be accompanied by a "quasi high speed" railroad, it will establish a (in EU programmes marked with 4/a) European scale *transportation corridor* (supported by the West with a supplementary Danube water way) which will advantage the capital city Budapest and possibly *Kecskemét and Szeged*. (High speed trains between Budapest and Belgrade would maximum stop at one or two stations. (Pro station only some three or four settlements, Novi Sad/ Szabadaka, Szeged, Kecskemét would be concerned.) *Most probably only Szeged will be able to profit from this quality connection*, since it is far away from Budapest to develop independently without being effected by the capital city, *utilising the opportunity to become a centre in the Euro-region covering three countries*. The city already excels in the Great Hungarian Plain with its especially viable economy, it is a real "paradise" for small businesses, yet rather a trading centre than an industrial. However it is still an open question, whether the other parts of the corridor towards the Balkan will be able to produce such an economic prosperity, like that in North-Transdanubia. Theoretically the opportunity is given., but is doubtful, *that beyond the restructuring within the region it will be able to attract significant amounts of advective productive forces from the other parts of the country and from abroad*. If yes, than the whole country will be crossed by a Northwest–South corridor, which will be significantly more developed than the average with a very dynamic economic zone connecting to it. On the other hand, *it has a quite high chance, that the zone in-between the Danube and Tisza rivers will not be able to catch up with the economic advantage of North-Transdanubia* since it represents due to its geographic location a completely different potential. The agglomeration of Budapest and North-Transdanubia will offer more advantages for the majority of western capital. The construction of the M6 expressway (or the Mohács–Pécs–Siófok direction Transdanubian motor-way) will further strengthen the position of the corridors number 5/a, 4/a and 7.

- In opposite to the Northwest–South axis, the Northeast–Southwest international transit corridor will have a moderate impact on the regional differentiation. The main accent of traffic will fell on the Northern part on the Kassa–Miskolc–Budapest section, and rather less on the Záhony–Debrecen–Szolnok–Budapest destination. The Southern part will be the Budapest–South beach of the Lake Balaton – Nagykanizsa/Zalaegerszeg – Zagreb/Ljubjana – Rijeca/Triest direction corridor (EU Nr. 5) (*Figure 1*).

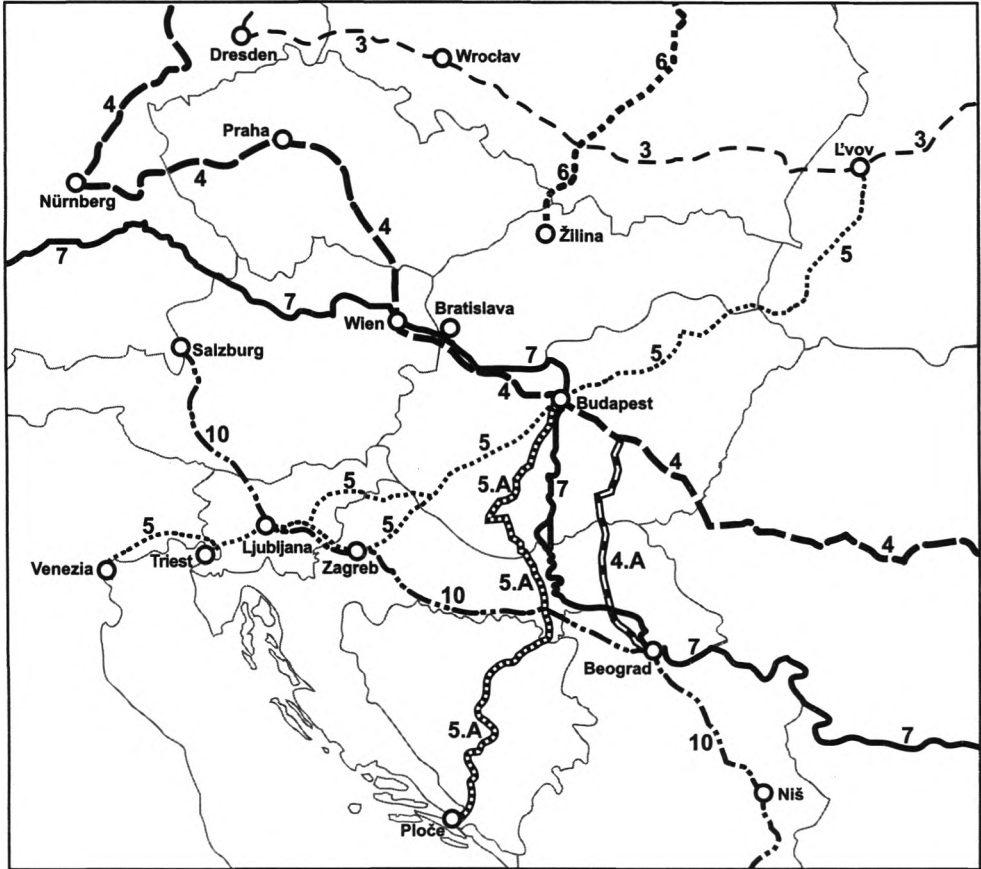
2 The regional characteristics of telecommunication development

2.1 The Foundation of the MATÁV (Hungarian Telecommunication Company), the quasi privatisation with concession and technological development

In the first year of the systemic change a general reorganisation was carried out in the structure of Hungarian telecommunication. Telecommunication became – similarly to Western European systems – organisationally independent, required by the rapidly growing telecommunication demand generated by the establishment of the informational society. Telephone services in the framework of the Hungarian Post were eliminated and the Hungarian Telecommunication Corporation (MATÁV) was established (Erdősi, F. 1992).

Figure 1

Traffic corridors in Central Europe after the Helsinki decision, 1997



The initial situation of MATÁV, enjoying at its foundation a completely monopolistic position, was quite weak in terms of telecommunication services, which is demonstrated by the following data:

- main-line supply: 8.7 lines per 100 inhabitants (Hungary was the next to last in Europe),
- density of speaking-stations 14.9 per 100 inhabitants (due to the high proportion of twin-lines).
- The supply had very significant regional differences:
- The automatic international ISD calls were accessible only in 12% of the total number of settlements,
- domestic STD calls by a further 16%,
- of the subscribers that were concentrated in the capital city, and only 5% of them in villages.

In the interest of a radical improvement, MATÁV developed its 10 year strategic development plan, and its medium term, 3 year, 1991–93 network infrastructure development plan. The implementation of the later improved the level of the Hungarian telecommunication up to another quality level (Figure 3).

In the privatisation programme the government sought to delegate the local and micro-regional network development to smaller private companies, yet through the concession tenders of 1994 *only 18 of the 54 primer districts could be concessioned* in 1994/95. The new proprietors received a licence for their services only in these regions. MATÁV remained responsible for the national and macro-regional, and international telecommunication lines ensuring local and micro-regional companies the possibility of accession to the large scale network (Straub, E. 1995).

Some of the new private companies acquired a territorially continuous service unit, while the harmonisation of services in scattered and independent territories still keeps us waiting. In some exceptional cases the fusion of districts belonging to different service providers is possible (as a result of acquisition or even strategic partnership).

As a result of internal and external political changes, the European import market was freed in 1991 and all modern “western” telecommunication instruments, which were prohibited previously by the COCOM list, became accessible, and the conditions of development for the rural phone network were created.

Due to complex technological development, traditional centres (Rotary, Cross-bar) were modernised, electrified and connected to the international network, and in order to develop digital services within the country a broadened digital fibre optic, 3,400 km long, vertical core network was constructed stringing 54 cities in the country. The micro wave transmission network was constructed, the connection to the satellites in the Atlantic and Indian Ocean of the Intelsat satellite telecommunication network was carried out, so today all capital cities of the world are accessible by telephone.

The quantitative developments created (in opposite to one million main stations at the beginning of 1990, by the summer of 1997 already 2,4 million main phone stations were operating) a buyer's market, so in the districts with a surplus of capacity (Miskolc, Balassagyarmat or Paks for instance) the propagation of second or third phones started among subscribers.

With the *spread of new telecommunication-telematic-informational services* (fax, telex, data transfer, video conference, E-mail etc.) *Hungarian telecommunication became by the 90s the most developed Central East European telecommunication sector.* (Hungary reached in terms of degree of phone supply 65% of the average of the European Union, 70% of the South-Europe, and 131% of the Central East Europe). *Budapest is becoming step by step not only the functional centre of the macro-region but also the primary node of informational networks.*

2.2 Regional characteristics of the diffusion of services

The development of telecommunication in the last period was characterised by four marked trends:

- Globalisation, the introduction of continent-wide or even world-wide unified services,

- integration, the accomplishment of unified telecommunication networks, which are able to on a unified technological basis transmit sound, picture and data, to operate previously independent systems as a whole, while
- in the course of mobilisation, new telecommunication services were introduced on the market, which enable the user to use his phone without any cable connection on a large territory,
- in the technology of transmission the digitalisation is gaining space.

The spread of telecommunication services in Hungary went on according to the model experienced world wide, in the frame work of a process spreading from the centre towards the periphery. Concretely:

- from the capital city towards other regions,
- from West-Transdanubia, located closer to Western Europe and having traditional Western contacts, towards Eastern regions of the country.

2.2.1 Digital services

In the quality of telecommunication *digital services* (a significant advance compared with analog services) *first appeared in Western Transdanubia, respectively Budapest, and they spread in the country spatially quiet scattered, in isles*. By 1997 the number of totally or at least mostly digitalised districts multiplied itself.

If only the cities compared (and not the territories supplied), the cities of the Great Plain are at all not in less favoured situation than those of Transdanubia, since their average size (territory and population) is significantly higher, than in Transdanubia.

The main telecommunication axis of the country is directed Northwest-Southeast: from Vienna to Budapest and from Budapest to Szeged (an optical cable with 20-fibres). Therefore in the future, beyond Budapest, other regional centres, Mosonmagyaróvár, Győr, Tatabánya, Bicske, Kecskemét, Kiskunfélegyháza, Szeged will enjoy the advantages of the modern, high capacity telecommunication infrastructure. An other, transversal East-Northeast-West-Nordwest direction main axis is enfolding: currently running in the Great Hungarian Plain (through Monor) until Jászberény and continuing through Budapest in Transdanubia, Székesfehérvár and Veszprém until near Tapolca. A part of this 20 fibre cable is the line between Székesfehérvár and Paks – matching naturally the high quality requirements of the Nuclear Power Plant in Paks.

2.2.2 Territorial diffusion of the cellular phone service systems

The establishment of a radio network as the condition for mobile phone service was carried out very quickly.

The establishment of *the 450 MHz radiophone-system* (through which Hungarian subscribers can be called from all over the world) started in metropolitan Bu-

dapest in 1990. In 1996 the system, covering already 93% of the country, had 72 thousand subscribers. Yet it could not reach a 100% coverage since the completion of the system is in some places not efficient due to the configuration of the terrain and the low density of population.

In the spatial expansion strategy of *the 900 MHz service providers* the capital city achieved first place, followed by the area around Lake Balaton and the trace of the M7 highway, since these were the regions where the service providers could count on the highest – even if in the tourism region only seasonal – demand. In the second phase bigger cities and the trace of the main traffic and transportation axis were covered. In the third round medium and smaller size cities and the Budapest agglomeration was connected to the system and from the technical point of easily coverable areas of the Great Hungarian Plain. Finally the radio phone services were made accessible also to rural areas in mountains and hills, and this phase was completed at the two mobile phone service provider companies (WESTEL GSM, and Pannon GSM) practically at the same time, by the end of 1996.

The spread of cellular phones shows a strong spatial hierarchy. The rapid growth of coverage is not yet followed by the extension of the circle of service users, the equalisation between the different layers of society. The appearance of mobile phones used mainly for business purposes is, besides the dominance of the capital city (ca. 50%), in the network of large cities significant (ca. 20–25%), while in settlements in the lower grades of the hierarchy is dependent on economic activity and income circumstances and the degree of supply is generally low. Through the accomplishment and construction of the cable phone system it is probable that the supplementary role of cellular phones will be eliminated, but in future it may appear in households, as it is currently an everyday practice in Scandinavian countries. (Cellular phones are also replacing ham and CB radios, ensuring within a smaller area – e.g. within the capital city – a cheap connection adequate for dispatcher aims in the organisation of business activities. Due to the lack of these radios, the usage time of radio phones in Hungary is three times higher than the average in other European countries and therefore there are significant congestion in the system.)

2.3 Changes in the regional differences of the degree of cable phone supply

Notwithstanding that the regional policy of the “planned economy” proclaimed from the housetop the reduction of regional differences in the infrastructure supply, *in reality the regional differences within the telecommunication system went on growing in the previous era.*

As a result of pushing the aim of serving the central administration into the centre to a revolting extent *the development of the phone service in Budapest between 1965 and 1990 was five and half*

times faster than in the rest of the country and in some extreme cases the difference between the counties was 2,6. *The gap between Transdanubia, respectively North Hungary and the Great Plain went on growing.* The difference between cities which were step by step connected to the automatic STD system since the beginning of the 70s and the smallest villages, where there were some phones manually operated between 8–16 p.m. daily became more apparent. Among regional centres the county seats enjoyed priority, while cultural and cleric centres of the smaller cities got lorry on the development level of half of century ago.

By the middle of the 1980s huge gaps evolved not only as regards the number of phones (main and twin stations) but as well *the spreading of STDs.* The opportunity of SPD was at that time only given in Budapest and the bigger part of its agglomeration, in county seats and in further 2–3 cities per county and their surrounding, some industrial areas and in some other micro regions.

2.3.1 Decrease of the difference between the capital city and other region in the level of supply

The accessibility of basic telecommunication services even in most undeveloped rural areas was one of the conditions of operating small businesses established in masses after the systemic change as well as of the foreign capital flowing into the country. Investment plans since 1990 were not always consequent, they did not always give priority to the elimination of the worse insufficiencies, *yet during 1990s they significantly reduced the differences in the degree of supply.* Following the rejection of the previous, capital city centred telephone system development policy the proportion of the developments in other regions became better, therefore:

- the density of main telephone lines in the country became between 1984–89 2.5 times and between 1989–95 1.51 times more,
- while in Budapest between 1985–89 2.2 times and 1989–95 1.88 times more,
- and in the rest of the country between 1985–89 2.9 times and 1989–95 3.02 times more.

2.3.2 Degree of supply in the counties

For the period between 1989 and 1995 characteristically not the situation of the worse supplied counties improved the most (in %) (*Table 4*). Concerning the quantity of the specific (main station/100 inhabitants) degree of phone supply, apart from a general improvement of supply we can experience a *strong rearrangement of the counties:*

- *the winners of the territorially unequal investments were in majority the counties of West and North Transdanubia, and the agglomeration of the capital city improved its position significantly,*
- *the Southern part of the Great Plain characteristically lost from its position as well as the Southeast and central regions of Transdanubia,*
- *only Szabolcs-Szatmár-Bereg county maintained its previous position.*

Table 4

The volume of growth of specific degree of telephone support (main lines / 100 inhabitants) and the changes of ordinal position by counties in the period between 1989 and 1995 (calculated from the basic data for the year 1990 of the Hungarian Post and for 1990 and 1995 of the Hungarian Statistical Almanac)

County/capital city	Specific degree of supply			Degree of improvement (+) or worsening (-) of the ordinal position**	Number of phone main-lines in 1995 in the % of that in 1990
	1989	1995	volume of growth %*		
Budapest	20.8	39.0	87.4	unchanged	390.0
Baranya	8.4	21.1	151.2	-3 places	217.0
Tolna	8.4	20.5	144	-3 places	334.0
Győr-Sopron-Moson	7.9	25.2	219.0	+2 places	286.1
Csongrád	7.7	17.2	123.4	-10 places	186.2
Borsod-Abaúj-Zemplén	7.5	19.5	160.0	-1 place	226.0
Somogy	6.7	18.7	192.2	-1 place	251.1
Heves	6.4	21.2	231.3	+4 places	291.6
Veszprém	6.3	13.4	123.3	-8 places	186.2
Vas	6.0	18.7	211.7	+2 places	226.1
Hajdú-Bihar	6.0	16.1	168.3	-2 places	253.9
Bács-Kiskun	5.6	15.6	194.3	-3 places	232.2
Zala	5.3	21.7	309.4	+10 places	351.7
Komárom-Esztergom	5.5	16.6	201.8	+2 places	253.6
Békés	5.1	10.4	103.9	-5 places	179.7
Nógrád	5.1	11.7	129.4	-2 places	207.9
Jász-Nagykun-Szolnok	4.2	14.8	190.2	+1 places	292.6
Fejér	3.8	16.7	339.4	+7 places	313.9
Szabolcs-Szatmár-Bereg	3.1	11.7	277.4	unchanged	351.4
Pest	3.0	16.0	433.3	+6 places	480.9
<i>Counties</i>	<i>5.61</i>	<i>16.9</i>	<i>201.2</i>		
<i>Country total</i>	<i>8.66</i>	<i>21.1</i>	<i>131.3</i>		<i>216.6</i>

* according to the number of main telephone station per 100 inhabitants

** how many places did the position of the county advance or fell back on the list

Within rural areas, developments preferred the regions of West and North Transdanubia, while Baranya, Borsod-Abaúj-Zemplén and Veszprém counties enjoying the best position in the 70s (due to mining and industrial activities) fell behind in the "telephone-competition" as well as the "loved one" of the 80s, Csongrád county. This strongly polarised policy, developing the major areas of the Great Plain only made a moderate exception with Szabolcs-Szatmár-Bereg county joining the government programme targeting the infrastructure rise of the most underdeveloped regions with spectacular investments.

2.3.3 Characteristic of the degree of phone supply by settlement categories

Among the three administrative settlement categories, *the degree of supply in the county seats is far ahead of other cities*. The only exception is Somogy county, where (due to the exceptionally high quality of telephone supply in small holiday resorts around lake Balaton) the specific degree of telephone supply is one third higher than other cities and the county seat Kaposvár (Table 5).

Table 5

The distribution of telephone access according to primary settlement category of each county, 1995
(The relative degree of supply in comparison to the county seat in percent)

County	County seats		Other cities		Settlements	
	main line / 1000 in- habitants	%	main line / 1000 in- habitants	%	main line / 1000 in- habitants	%
T R A N S D A N U B I A						
Baranya	304	100	207	68.1	127	41.8
Fejér	314	100	128	40.8	112	35.7
Győr-Moson-Sopron	345	100	303	87.8	163	44.2
Komárom-Esztergom	235	100	195	83.0	94	40.0
Somogy	226	100	299	132.3	114	50.4
Tolna	304	100	227	91.1	162	53.2
Vas	307	100	186	60.5	107	34.9
Veszprém	221	100	132	59.7	101	45.7
Zala	278	100	238	85.6	173	62.2
<i>Average</i>	282	100	213	75.5	128	45.4
G R E A T H U N G A R I A N P L A I N						
Bács-Kiskun	284	100	125	44.0	126	44.4
Békés	248	100	79	31.9	74	29.8
Csongrád	284	100	121	42.6	70	24.6
Hajdú-Bihar	243	100	114	46.9	103	42.4
Jász-Nagykun-Szolnok	288	100	133	46.2	94	32.6
Pest			200	(100.0)	137	(68.5)
Szabolcs-Szatmár-Bereg	232	100	154	66.4	60	25.9
<i>Average</i>	263	100	132	46.3	95	33.3
N O R T H H U N G A R Y						
Borsod-Abaúj-Zemplén	357	100	193	54.1	114	31.9
Heves	348	100	241	69.3	153	44.0
Nógrád	186	100	168	90.3	69	37.1
<i>Average</i>	259	100	201	71.2	112	37.7

The advantage of the county seats over other cities is especially characteristic for the Great Plain.

The difference between county seats and other cities is the smallest in Transdanubia (by 75.5%) and the situation is similar in North Hungary. Among the 19 counties, the most extreme situation is in Békés (in comparison with Békéscsaba the degree of supply in other cities is 32%), while the most balanced situation can be found in Tolna and Nógrád counties (the degree of supply in the other cities of the county is 90.3% in comparison with the county seat Salgótarján and 91.1% Szekszárd).

The steady supply is characteristic for Transdanubia also as regards the facts, that the proportion of settlements in comparison to the county seats is here the most advantageous here (45.4%).

Yet the region's settlement structure is the most scattered in the country (there are several small settlements where the specific cost of infrastructure development is very high). In the Great Hungarian Plain (despite the high number of large villages), the degree of supply in settlements (with a proportion of 33.3%) is far beyond that of the county seat (previously developed on the basis of political concerns). The situation of North Hungary (with a high proportion of small villages) is rather similar to the Great Plain by a proportion of 37.1%.

There are big differences in the metropolitan areas between the underdeveloped heavy industrial regions (Ózd, Salgótarján) and the flourishing tourist regions of lake Balaton and the multi-functional regions of Győr and Szombathely. Among settlements of lower categories, we can find cities and villages where the degree of telephone supply is as good as in the settlements of higher settlement categories.

Generally, the degree of telephone supply in the larger settlement categories is much better than in other settlements:

Despite the process of catching up the disadvantage of the following is still significant:

- the majority of “socialist” industrial centres,
- clerical or cultural centres, small cities (Szentendre, Esztergom, Kalocsa etc.),
- small cities in the Hajdúság and Jászság as well as other settlements of the Great Plain (the so called market-towns), where the proportion of agrarian activity is still high.

There is a strong correlation between the population categories and the degree of telephone supply. In general, the higher the number of inhabitants in a settlement the better the specific degree of supply.

There is an inversion only in two categories:

- the degree of supply in the cities with 100–200 thousand inhabitants is much better than in the cities with more than 200 thousand inhabitants (like Debrecen),
- in dwarf villages with less than 200 inhabitants, due to poverty (generated by very bad transportation circumstances) there is in a relative sense a higher number of phones than in bigger settlements with 200–4999 inhabitants. The high degree of telephone supply in dwarf villages (over the county average) is characteristic in Pest, Fejér, Győr-Moson-Sopron, Komárom-Esztergom and Szabolcs-Szatmár-Bereg counties, but there is a similar inversion in Borsod-Abaúj-Zemplén, Nógrád, Hajdú-Bihar, Békés, Vas, Veszprém and Zala counties.

The primary districts of MATÁV generally cover half or one third of a county. A dynamic investigation of their data shows that *the specific degree of telephone supply improved by the biggest volume (over 300%) in the districts which were the worst supplied at the beginning of the systemic change (5 main lines/100 inhabitants).*

As regards their economic function, the settlement circumstances of quite different settlement types belong to this group:

- Szolnok districts with medium-large industrial centres,
- Biatorbágy, Mezökövesd, Berettyóújfalu, Mohács and Mátészalka districts with mixed function small city centres with a relatively strong agrarian structure,
- the districts of Szentendre and Keszthely with a small city centre with cultural-educational and tourist functions.

The smallest (under 65%) was the growth in those districts which belonged also in the previous era to the relatively better supplied territories (as a result of previous investments). The district of the large industrial city Miskolc and the tourist-cultural centre medium size city of Sopron belong to this category.

A relatively small growth (100–145%) is characteristic for two districts, in which the majority of the settlement were in rural terms on a relatively high, above average degree of supply already in 1991. These districts have a medium size or large city centre, which are, apart from Kazincbarcika, county seats with a mixed structure of functions (Pécs, Szombathely, Zalaegerszeg, Kaposvár, Eger) in many cases with the dominance of industry.

Among the *concession districts* (apart from the Jászberény district) those in Transdanubia and around the capital city awarded themselves in the investments in the period 1993–1996 (the districts of Pápa, Sárvár, and Szigetszentmiklós).

The process of equalisation can also be generally detected in primary districts. While the difference between the best and worse supplied MATÁV districts was 1100%, the same data decreased to 390% by 1996.

The territory of micro-regions used by the Central Statistical Office age usually half (or one third) of the territory of the primary telephone districts, therefore, the available data are adequate to understand the newest situation. As *Table 6* and *Figure 2* show, *at the micro-regional level the degree of supply in the country is extremely mosaic-like, the best supplied micro-regions are often neighbours of micro regions with a low degree of supply.* The majority of the best supplied micro-regions are located at the Southwest-Northeast energy axis and in tourist zones. Others were “brought” to a higher level by motivations deriving from large urban centres located in the West.

On the micro-regional level the higher degree of supply is usually dependent on the economic situation and cultural level. (The Ózd–Putnok micro-region is an interesting exception).

The worst supplied territories of the country (under an index of 35) are the micro-regions in West-Transdanubia and around the capital city, but those following the previous are in the Great Plain or North-Hungary (with an index between 35 and 60), only one of them belonging to the region of South-Transdanubia.

At the end of 1995, the difference between the best supplied Balatonfüred district (392) and worst supplied Aszód district (22) of the country was almost 18-fold.

Figure 2

*Number of main telephone lines per 1000 inhabitants in the statistical micro-regions
31 December 1995*

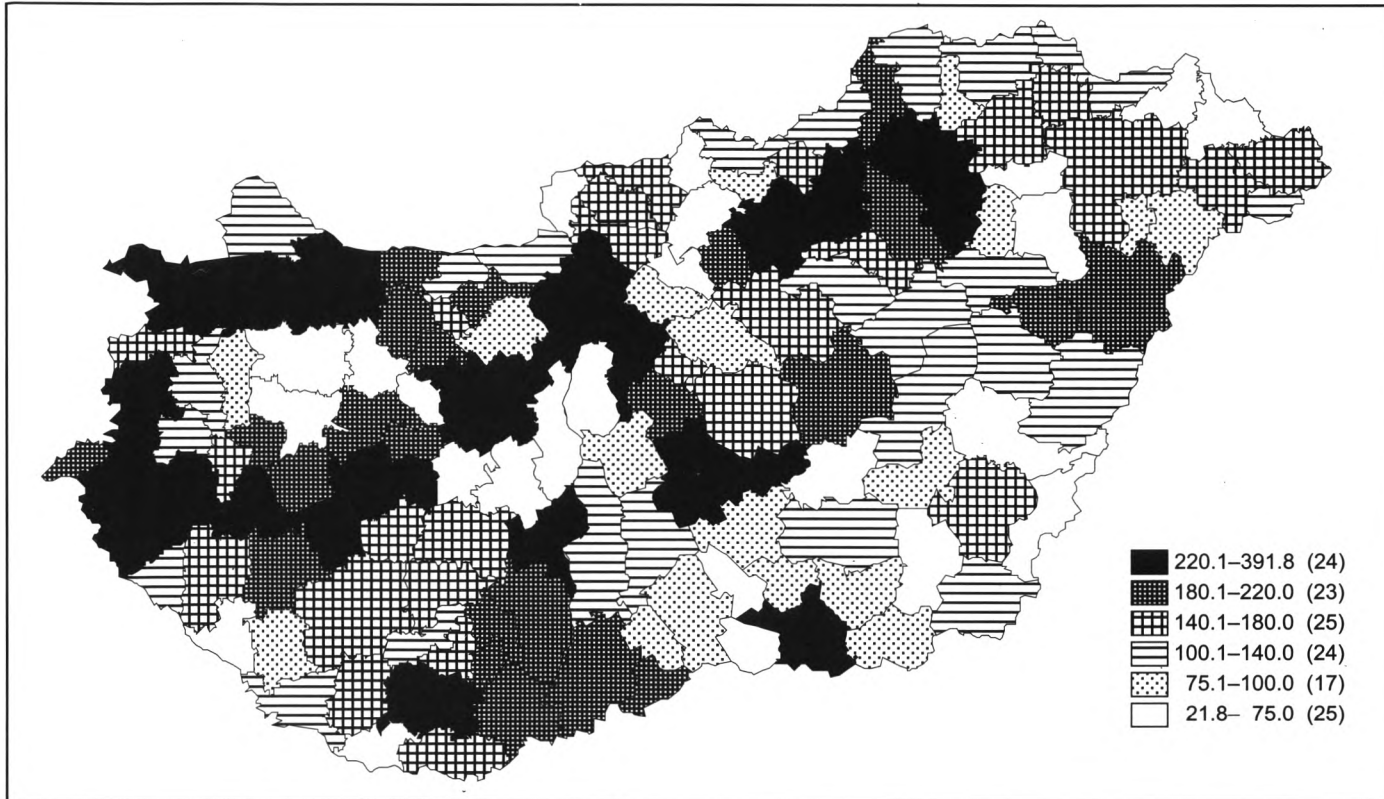


Table 6

The main extremities of telephone supply (main lines/1000 inhabitants) by micro-regions at the end of 1995

Region/county	The least supplied micro-regions (A)		The best supplied micro-regions (B)		Index (B/A)
TRANS DANUBIA					
Baranya	Selye	60	Pécs	259	4.31
Fejér	Dunaújváros	64	Gárdony	262	4.09
Győr-Moson-Sopron	Mosonmagyaróvár	138	Sopron	334	2.42
Komárom-Esztergom	Dorog-Esztergom	105	Tatabánya	216	2.06
Somogy	Csurgó	64	Siófok-		
			Balatonföldvár	368	5.75
Tolna	Dombóvár	162	Paks-Dunaföldvár	239	1.48
Vas	Celldömök	34	Szombathely	251	7.38
Veszprém	Zirc	27	Balatonfüred	392	14.50
Zala	Letenye	136	Keszthely-Hévíz	270	1.99
GREAT HUNGARIAN PLAIN					
Bács-Kiskun	Kiskunhalas	54	Kecskemét-		
			Tiszakécske	223	4.13
Békés	Orosháza-Tótkomlós	59	Békéscsaba-Békés-		
			Mezőhegyes	158	2.68
Csongrád	Mórahalom	54	Szeged	253	4.69
Hajdú-Bihar	Hajdúböszörmény-		Debrecen-		
	Hajdúnánás-		Hajdúhadház-		
	Hajdúdorog	71	Nyíradony-Téglás	203	2.86
Jász-Nagykun-Szolnok	Kunszentmárton-		Szolnok-Martfű-		
	Tiszaföldvár	44	Törökszentmiklós	191	4.34
Pest	Aszód	22	Budapest		
			agglomeration	352	1.60
Szabolcs-Szatmár-Bereg	Vásárosnamény		Mátészalka		
		39		152	3.90
NORTH HUNGARY					
Borsod-Abaúj-Zemplén	Szikszó	85	Ózd-Putnok	274	3.30
Heves	Heves	125	Eger	253	2.02
Nógrád	Pásztó	42	Balassagyarmat	174	4.14

The smaller the investigated territory, the more apparent are existing differences in the degree of supply (despite of equalising developments). If we study, for instance, the district of Zirc in Transdanubia, (tourism, cultural tourism and industry) or the district of Aszód (industry and a strong layer of small entrepreneurs), we will not find any causes for their lower degree of supply than the Mátészalka district in Northeast Hungary. Notwithstanding that there is a correlation between the degree of supply and the economic basis and income circumstances, the eventuality of the degree of telephone supply can be traceable to subjective reasons (the intensity of lobbying, political positions).

2.4 Development of mass media services

2.4.1 Circumstances of radio and television reception

The reception of the central, national radios not only improved as regards quality but their regional distribution as well. Concerning evening hours, three main programmes can be received in at least 95% of the country (*Table 7*).

Table 7

Reception possibility according to % of country coverage

Radio channel	1990	1995
Kossuth	82%	97%
Petőfi	80%	95%
Bartók (mono)	93%	95%
Bartók (stereo)	68%	50%

Among the video-based informational services, the teletext service has the longest history, which was launched in 1982. First 200, later 600 pages teletext programmes, was actualised every day, 1985, 150 thousand, while in 1995 half a million televisions could receive it.

The mass media configuration of the country was until 1987 very weak, since certain sectors were operated on a strongly centralised system (*Erdősi, F. 1990*). Even the process of decentralising was accomplished in a centralised fashion. For instance, the establishment of regional radio and television channels and transmission zones was accomplished thus. The established structure at the same time carried the opportunity of real devolution, but it required the transformation of the political system. Regional broadcasting stations are in several districts more popular than national programmes, and the programme of regional televisions reach a growing number of the population, since these radios can be received in 84% of the regional television programmes in 72 % of the territory of the country.

The local (settlement, micro-regional) radio and television stations first introduced themselves in 1988, and in higher numbers at the beginning of the 1990s. In 1995, in Hungary, there were 95 radio stations operating, about three fourth of them were broadcasting stations. The number of main television channels was 39, which were integrated into a network by 171 relays.

In West Europe since the beginning of the 1970s (with the spread of commercial broadcasting), the role of local and regional broadcasting grew rapidly. Hungary reached this phase with a delay of one and half to two decades. The Media Act provided for the legal basis on which local and regional radio stations may become the instruments of shaping micro-regional and local identity, and local patriotism, in the positive sense, generating communication between the different groups of local society.

Within the frameworks of public broadcasting besides national programmes, there are studios in Debrecen, Győr, Miskolc, Nyíregyháza, Pécs, Szeged and Szolnok, broadcast regional programmes, and Calypso, the radio station of the capital city. Regional stations established a well functioning co-operation with the local private radio stations. Practically every city, where the regional studio of the national stations is functioning, have at least two commercial channels.

The transmission territory of most of the regional radios pass through national borders, these media serve the culture of the national minorities and of Hungarians over the state borders and neighbouring nations (*Figure 3*). Apart from the fact, that the technology of frequency division became more modern, the restricted number of available frequencies does not make the establishment of private radios possible in the preferred number.

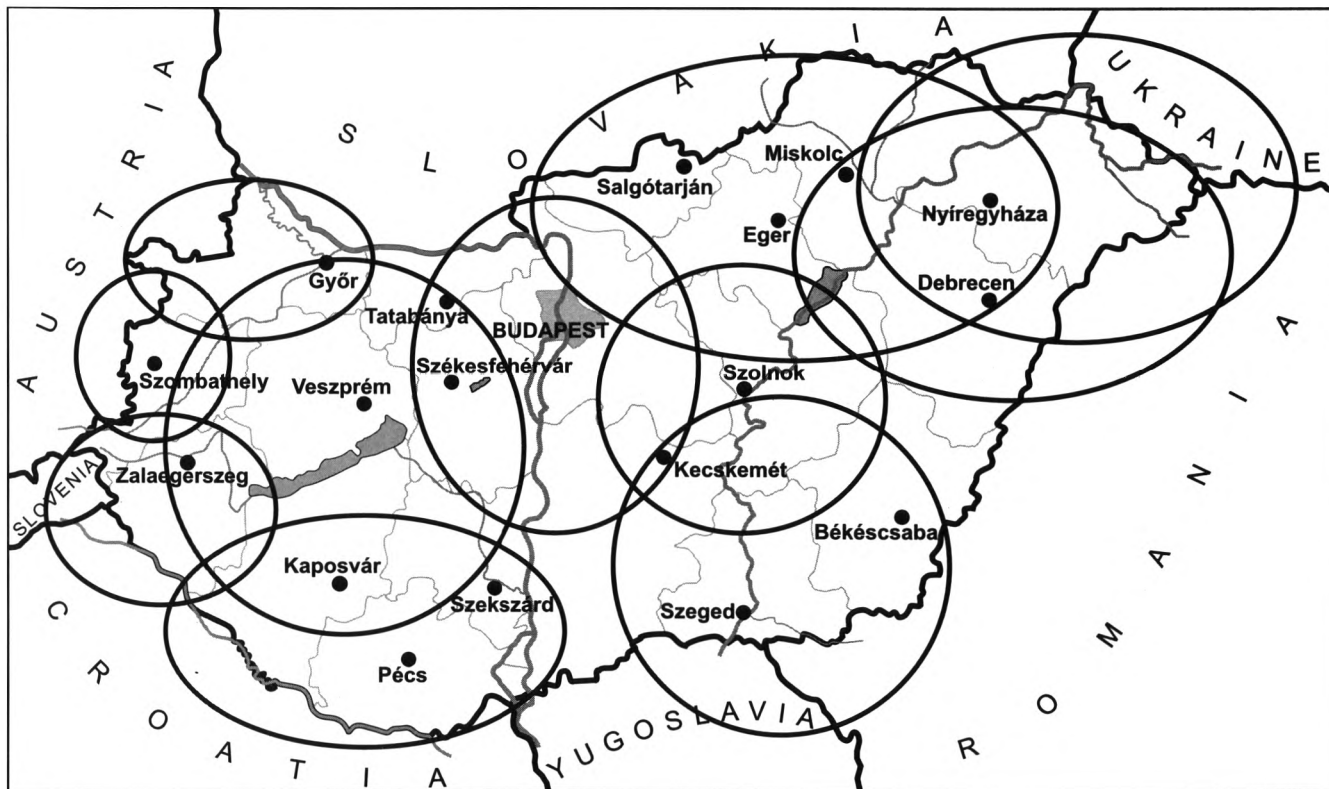
2.4.2 Cable television – satellite broadcasting

In terms of proportion of households supplied with cable television or satellite programmes, Hungary is way in first place among the post-socialist countries (with 57%) and also the income from commercial broadcaster in the cable programmes is by far the highest in Hungary.

In Hungary, in 1995, 418 out of 100 inhabitants already had access to cable television programmes. The indexes of the capital city and the county seats are quite different. The degree of supply is hardly connected with financial factors or the general development level. Theoretically to some extent it influences the settlement structure, since in the scattered settlements (like in the world of scattered villages), with relatively bigger distances the establishment of cable networks is quite expensive, it is more efficient to use satellite dishes. It is an inevitable fact, that the cable television broadcasting is the least spread in Bács-Kiskun county and Békés, Csongrád, Hajdú-Bihar, Jász-Nagykun-Szolnok, Pest, Szabolcs-Szatmár-Bereg with their scattered settlement structures are also beyond the average. At the same time for the Transdanubian and Northern counties with a completely different structure (Győr-Moson-Sopron, Nógrád, Somogy, Vas, etc.) a degree of supply under the average is also characteristic, which can hardly be traced back to the high number of tiny villages, since among the 19 counties of the country the highest degree of supply (80% better than the capital city) is in Zala county which really has a high number of tiny villages. According to the example of some cases we can hazard remark that in traditionally strongly industrialised counties, where the majority is living in housing estates, the cable connection of the flats is often more frequent (Borsod-Abaúj-Zemplén, Fejér, Komárom, Esztergom, Veszprém). On the other hand, the above mentioned exceptions question this hypothesis.

Figure 3

Access zone of regional radio programmes



2.5 The development of telecommunication and its possible effects on the region

2.5.1 Development of an information society in Hungary

The Human race arrived to a new technology and society historical epoch. The technological possibilities of this new technological age are determined by the available instruments of modern telecommunication and information technology. The characteristic merchandise of the new epoch and society is processed information which is accessible from anywhere, any time, and theoretically for everybody. Yet it is a *question*, of what opportunities will be “left” for Hungary with *this new challenge* (considering the competition for new global strategic positions, such as achieved by the United States, the Far East and to some extent Western Europe) and *how the economic basis and frameworks of implementation can be created in Hungary*.

Even through the 1990 Act on telecommunication, the elaboration of a national information-telecommunication strategy did not become unnecessary, in which regional aspects shall also be emphasised (similarly to Denmark, Finland, and as it is being elaborated at present in India and Brazil).

The sectoral policy shall answer the principal question of how telecommunication can contribute to the solution of problems and tasks the country is currently facing. In answering this question it is a further difficulty, that there is uncertainty as regards the issue of *what architecture the future multi-functional telecommunication network shall be constructed on*. It is on the other hand certain that a decentralised network development harmonising with the specific population and economic structure of the regions and micro-regions is necessary, as well as the fusion of complementary networks competing with each other, and the establishment of a “network of networks”. (The latter may be like an Internet type system financed by the state or developed on an economic basis). Telecommunication has to have a “layered structure” in order to enable that it functions efficient in the information society“ (Lajtha, Gy. 1995).

In an information society, telecommunication will not simply be a leading sector but the biggest sector of economy. In the most developed countries, this sector produces already the highest profit and attracts the largest investments. Hungary will arrive obviously later into this phase approximately in two or three decades, but it is not impossible that with a concentration of knowledge and brain power we can reach this development level by 2000–2005.

To accelerate this process there are four main directions within the Hungarian telecommunication development:

- Increase of the intelligence level of telecommunication centres, introduction of a Nr. 7 common channel sign system and the integrated service of digital networks based on that and the diffusion of ISDN,

- Establishment of networks required for the satisfaction of the demand for data-, text-, and picture transfer,
- Through the application of different technological solutions the establishment of an efficient sorting, which is able to satisfy the different needs of different bandwidths and time spans. Thus, the subscriber system will become an access system.
- The introduction of SDH, which enables different transit network levels to be utilised most efficiently, harmonises with the nature of services and the condition of the network.

2.5.2 Financial aspects of telecommunication development in the light of a constricted consumer purchasing power

Investigating the role of telecommunication in the future of regional development, we have to start with the fact that profit reachable by telecommunication is normally much higher than the costs (cost of maintenance and amortisation). This on the other hand has general social-economic conditions. If the value creating ability of the (producing and servicing) companies is weak (since with less trained and less valuable staff they can hardly produce any profit) than the advantageous of telecommunication can not succeed, since the users can only make use of telecommunication services only if the tariffs are low. According to internationally accepted estimates, families are ready to spend only 3-5% of their total income on telecommunication. Those living under minimum subsistence level, which in Hungary is 30% of the total population, cannot spend more on telecommunication than 0,5–1% of their income (*Lajtha, Gy.* 1995). In Hungary, income in an absolute sense (and compared with the Western European countries still) relatively low, but compared to the income of the population expensive tariffs are not sufficient to finance the desirable volume of telecommunication investments. As the only opportunities remains the bank loans or the privation of one part of the mainly state own telecommunication company. Special attention is necessary in this transaction in terms of how far will the dept burdens restrict future development trends and the profit exiting the country due to foreign ownership. The volume of investment of foreign capital is a very sensitive political and economic issue.

Compared with the volume of telecommunication by private persons, the proportion of *technological telecommunication* is continuously growing. Due to the fact that telecommunication became an organic and indispensable part of enterprise (productive) activities, its lack may endanger the functioning of the enterprise or in some cases it may also hinder it. Therefore enterprises are willing to spend on a reliable telecommunication infrastructure.

2.5.3 Future regional impacts of telecommunication

Despite of the entry into force of the act on telecommunication there is still a lot to be done in the field of the liberalisation of the telecommunication market enabling a competition with equal chances. That is:

- currently free access is only provided in the case of so called “value added services”, which give only about 5% of the services of the sector,
- in another 10% of the services enterprises and the population have the possibility to select (mainly in the field of cellular telecommunication services), but
- about 85% of income comes from activities which are owned by geographically servicing and administratively conditioned exclusive owners (monopolies) until 2000–2005.

In the European Union, since the first of January 1998, there is completely free competition as regards all of the telecommunication services, which means that anywhere, both within one country, and also in the European international market publicly accessible telecommunication service, all companies may operate. This circumstance shall be considered also in Hungary. Yet MATÁV gave some of its primary district in concession to private companies, but the defense of exclusive rights coming from the concession contracts is only a short term solution, and cannot replace the real privatisation.

The concession contracts not only tie the hands of the government in liberalising the market, but the hands of the operators, since their operation is strictly regulated and their duties are described in detail. Yet telecommunication investments shall be driven by long term considerations (Ehrlich, É. 1997).

The small concession companies operating in 18 of the 54 primary districts are in a small regional scale and only “quasi” competitors of MATÁV. In national scale only the mobile telecommunication companies are real competitors of MATÁV, even their service type is different therefore can be only restrictedly compared. Cable television is becoming a part of this circle. Its advantage is that it can be connected theoretically in all homes and can create for all subscribers the possibility of a broadband telephone connection. Yet it is hard to prognosticate, whether the diffusion of cellular phones will make the construction of a broadband telephone network unnecessary.

With the future deregulation of the deliberated market, actors will appear with publicly used telecommunication services, which are today service providers within a very narrow sectoral circle. For instance through the modernisation of the internal networks of the Hungarian Railway Company, water management organs and banks creates the opportunity for providing for public transmission and other services.

The technological development of telecommunication makes an equalisation between regions possible or at least very probable decrease of differences.

(Cellular phones and their peripheries, Internet and other global networks etc.). *With the accomplishment of the basic network the Eastern and Northern parts of the country (foreign) investors, business sphere with telecommunication instruments under similar circumstances can access telecommunications in transportation geography can the more advantageously located Western and central regions.*

We have to count on the trend that *Budapest is becoming one of the most important banking centre of Central-Eastern Europe*, and not only domestic businesses, but those in the surrounding countries are managed from here. *Carrying out these functions can for the long term not lack the access to high quality worldwide and precise information required by the international business world* (banks, insurance companies, investment companies, stock market etc.), *which can be provided for only with reliable, high capacity (profit oriented) teleports.* Therefore it is very probable that the first teleports will be established in Budapest or in the most valuable dynamic settlement of its agglomeration. Therefore the weight of the capital city will increase on the field of quality services within the telecommunication system of the country.

The first regional telehouses of the country were established in Transdanubia. It is possible that in the future *alongside the Austrian-Hungarian border*, some other telehouse will be established based on business considerations and that the Austrians will use their services which are significantly cheaper than in Austria. Considering these investments and the probable diffusion time of the *innovations* appearing in the next phase of development of telecommunication by the turn of the century respectively by the *beginning of the millennium, the regional inequalities of the degree of informational-telecommunication supply may again increase.*

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THE ROLE OF TOURISM IN REGIONAL DEVELOPMENT

GABRIELLA KRAFT-SOMOGYI

Hungary has had a favourable position with regard to guests visiting the country during the recent decade (7-9th place in the overall standings). However, because of the low proportion of real tourists, the deficient supply of tourist services and the low volume of incomes, the country only performs at a medium level and it only reaches 35–40th place in world ranking. Nevertheless, tourism is a considerable factor in the national economy. According to data from the National Bank of Hungary, officially registered foreign currency incomes exceeded 2.5 billion USD in 1997, which is more than three times as much as the revenues registered in 1990. An amount of about the same volume, remaining in the gray economy, is estimated to contribute to national wealth. The share of value-added generated by tourism in GDP – calculating both official and non-official incomes – is more than 9%.

The balance of the revenues and expenses connected to tourism – realised in the legal economy – is regularly favourable (it was more than 600 million USD in 1997), contributing to the balance of payment equilibrium. According to estimates, tourism directly provides some 250,000–300,000 people with incomes and it generates about the same number of jobs, through a multiplier effect, in connected sectors (trade, traffic and transportation, agriculture, good processing, construction industry, etc.).

In the 1980s and 1990s, besides mass tourism, the wider and wider penetration of so-called post-modern tourism modified the regional distribution of tourism. The post-modern tourist product is small-scale and geographically dispersed, due to its very nature; the emphasis is on individualised, special holidays. Consequently, it is less polarised, it requires less state investment – large-scale infrastructural networks – to enable the private sector to produce value-added, it requires less labour force, and it involves the local labour force to a larger extent (*Williams, A. M.–Montanari, A. 1995*).

The systemic change swept away the myths that had made Hungary an exiting destination even without special services adequate to the demands of the international tourism. With the demolition of the Iron Curtain and the elimination of traveling restrictions in former socialist countries, Hungary dropped into ever sharper competition with the rest of the world. Parallel to the decrease in the real value of wages and salaries and the collapse of the holiday-making system of the trade unions, the volume of domestic tourism declined significantly (*Lengyel, M. 1997*).

Given many national endowments, the long-term economic development inducing tourism can only be utilised if the development of tourism is intended to meet the demands of post-modern tourism. High quality gastronomic and wine events, an increase in the number of cultural festivals, artisanal workshops and welcoming homes opened to guests and Tourinform offices collecting and transferring tourist information are all signs of a shift into that direction. In the 1990s, tourism started to become universal in the sense that it appears as a key element in local development strategies in an ever wider geographical range, although its regional distribution is uneven, due to its characteristic features. In order to judge what role tourism plays today and can have in the future for regional development, we have to analyse, based on scarce databases¹, the spatial development of demand and supply of tourist products within the conditions of the market economy, the activities of those who are responsible for the development of tourism and the effects of tourism.

1 Tourism in the 1990s

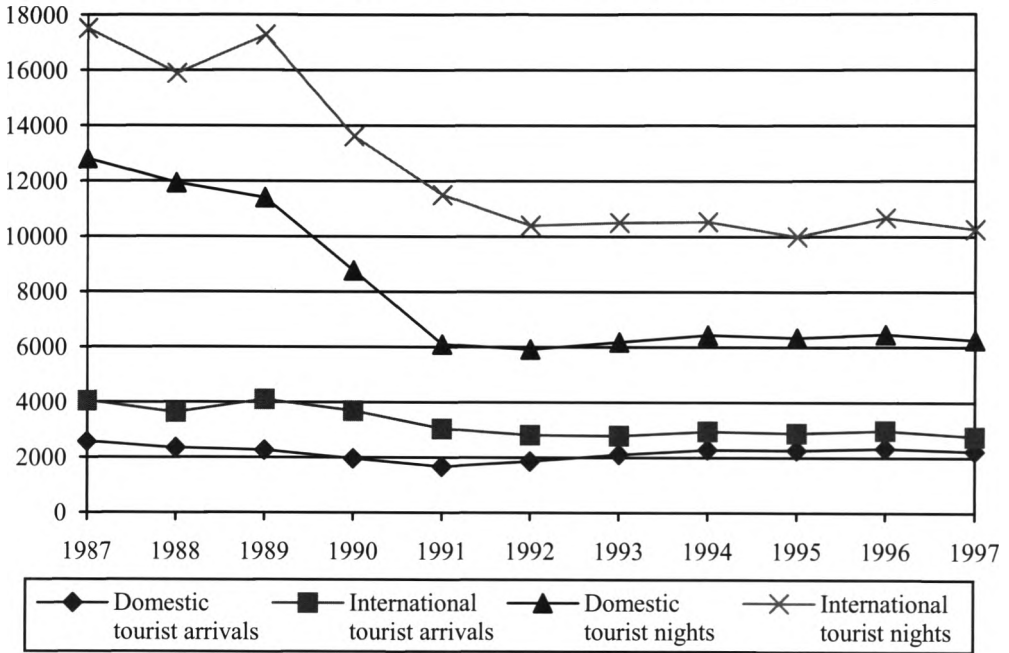
The number of foreign visitors to Hungary was more than 39 million in 1996, more than 20 million tourists stayed for more than 24 hours, 14 million arrived for a single day, usually for shopping or excursion purposes, and almost 5 million only passed through on their way to their destinations. Not more than 15% of the foreign citizens arriving as tourists appear at statistically registered so-called commercial lodgings, and estimates say that the same proportion of those joining in home tourism use registered accommodations. Our analyses relate to this circle of guests.

During the last ten years, the number of Hungarian guests declined by 13.2% and that of the foreign guests by 31.8%, while the number of nights spent by Hungarian guests declined by 51.2% and those by foreign citizens by 41.2%. After 1991, the turnover of guests seems to stabilise at a level lower than the previous one, reflecting the market value of the Hungarian tourist supply (*Figure 1*). In the sales of attractions, the supply of accommodations plays a crucial role. Because of the small size of the country, those regions which are unable to provide adequate accommodations can only be interesting to excursionists.

2 Accommodation capacity and its regional distribution

The regional distribution of commercial lodgings reflect the heritage of the past 50 years. In the selected holiday regions that had received significant state subsidies and the health and thermal resort places favoured by group tours often feature excess capacity, while regions with favourable endowments which had not been prioritised before are unable to accommodate a bus-full of tourists (*Figure 2*).

Figure 1

International and domestic tourist turnover in commercial lodgings, (1000)

Source: Idegenforgalmi Évkönyv. 1987–1997.

The role of Budapest is exceptional. The capital city is home to one eighth of total commercial lodgings and more than one fourth of the hotel beds. In both categories, the counties on the shore of Lake Balaton – Somogy, Veszprém and Zala – play an important role. Together they concentrate 36% of all accommodations and one third of hotel beds. The supply of higher quality hotels is even more concentrated in the capital city: 98.4% of the beds in five-star hotels and 72.7% of the capacity of the four-star hotels. More than 5% of the commercial lodgings can be found in Hajdú-Bihar county, which is famous for its thermal and health tourism and in Baranya county, which apart from its spas, abounds in significant historical and cultural sights of interest. The smallest shares from the supply of commercial lodgings belong to Tolna, Nógrád, Békés, Csongrád and Szabolcs-Szatmár-Bereg counties – less, than 2.5% each. Less than 1.5% of the hotel beds can be found in Bács-Kiskun, Jász-Nagykun-Szolnok, Szabolcs-Szatmár-Bereg, Nógrád, Komárom-Esztergom and Tolna counties respectively.

If we look at the density of commercial lodgings, the leading role of Budapest is even more striking. The Balaton counties are the next one in the order, followed by Baranya, Fejér, Komárom-Esztergom and Vas counties, which all have more than three places in commercial lodgings per square kilometre (*Figure 3*).

Figure 2

Commercial lodging capacity, 1996

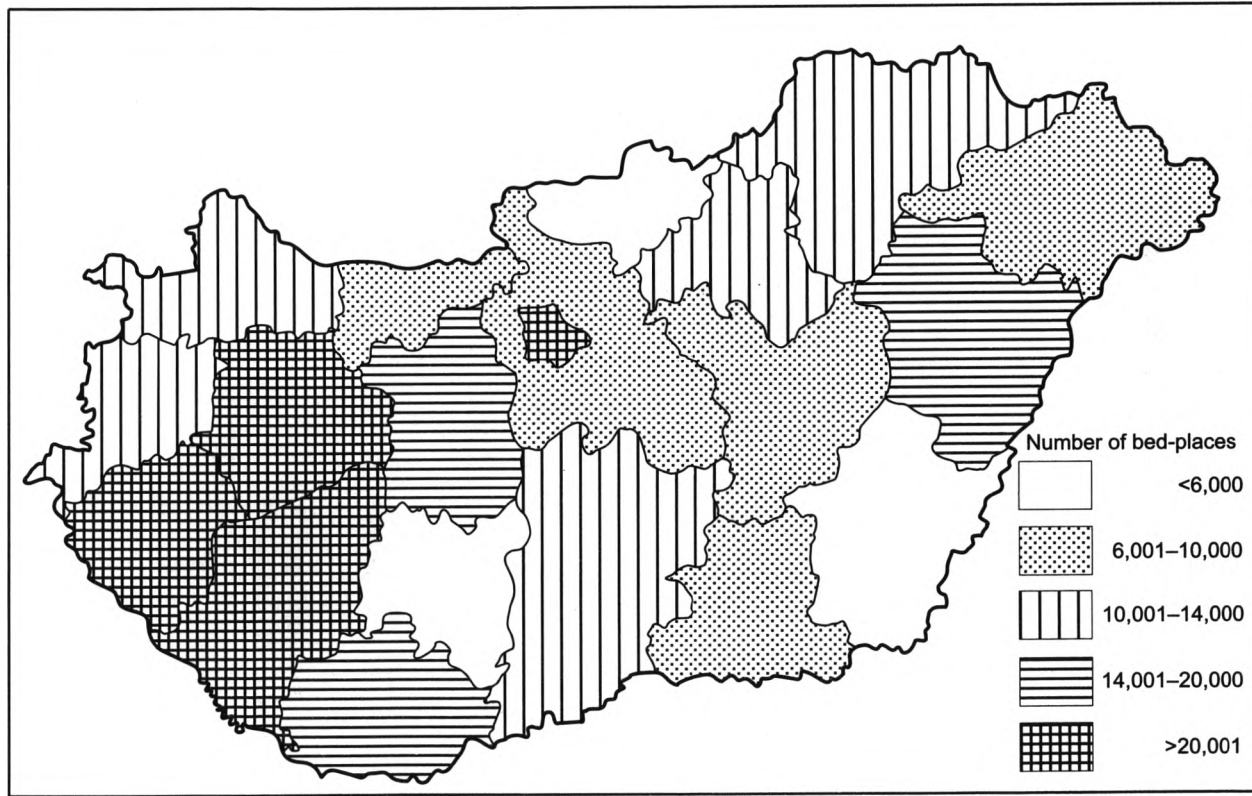
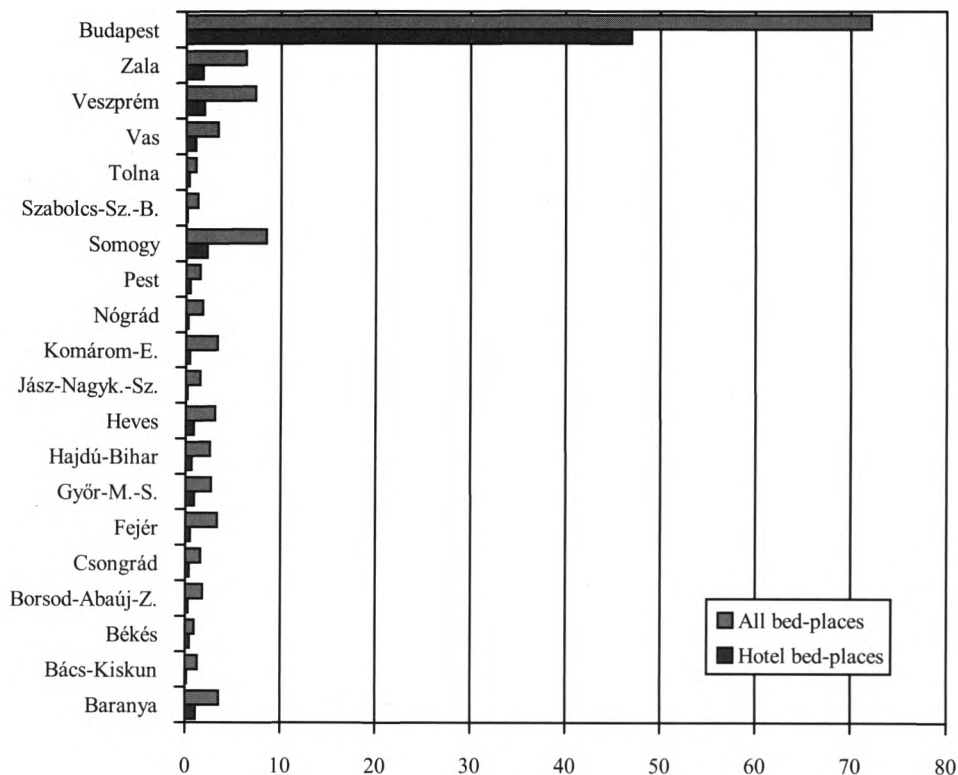


Figure 3

Density of commercial lodgings, 1996 (bedplaces/km²)

Sources: Own calculation on the basis of Statisztikai Évkönyv, 1996; Idegenforgalmi Évkönyv, 1996.

The allocation quotient, which shows the hosting capacity – share from the reception capacity or turnover of tourism divided by the share of the population – reveals that the share from the capacity of lodgings exceeds the share of the population in the three Balaton counties, Somogy, Veszprém and Zala; Vas county with spas of international recognition, along the border to Austria; Baranya county with Pécs known as the second biggest museum centre in Hungary; Heves county, which offers both health resorts in the mountains and thermal spas as well as quality wines and a baroque atmosphere, and Fejér county, which is home to the resort area of Lake Velence. When examining the share of hotel beds, we do not find Fejér county in the same favourable position; Budapest, however, possesses hotel beds one and a half times more than its population (*Table 1*).

In the period since 1990, the capacity of commercial accommodations did not change much on the whole, but significant changes took place in its structure. The

Table 1

Allocation quotients of commercial lodgings and tourist turnover, 1996

	All bed-places	Hotel bed-places	All tourist arrivals	All tourist nights
Baranya	1.30	1.33	1.03	0.93
Bács-Kiskun	0.66	0.26	0.55	0.42
Békés	0.44	0.69	0.51	0.56
Borsod-Abaúj-Zemplén	0.59	0.37	0.53	0.40
Csongrád	0.52	0.43	0.76	0.48
Fejér	1.14	0.57	0.64	0.69
Győr-Moson-Sopron	0.86	0.98	1.45	0.95
Hajdú-Bihar	0.98	0.83	0.74	0.93
Heves	1.16	1.09	1.47	1.13
Jász-Nagykun-Szolnok	0.68	0.27	0.39	0.44
Komárom-Esztergom	0.81	0.35	0.61	0.77
Nógrád	0.68	0.27	0.50	0.45
Pest	0.33	0.33	0.37	0.30
Somogy	5.12	4.55	2.00	3.36
Szabolcs-Szatmár-Bereg	0.43	0.14	0.27	0.18
Tolna	0.54	0.58	0.33	0.29
Vas	1.37	1.37	1.48	1.67
Veszprém	3.03	2.70	1.84	2.78
Zala	2.72	2.62	1.72	2.97
Budapest	0.68	1.50	1.81	1.46

Source: Own calculation on the basis of Statisztikai Évkönyv, 1996; Idegenforgalmi Évkönyv, 1996.

number of hotel beds grew to one and a half times in an uneven regional distribution and the number of beds in organised private rooms declined drastically – shifted to a sector that is hard to control. The reason behind the spectacular growth in the number of hotel beds is primarily not the construction of new hotels, but the entrance of former accommodations of group tourism into the market. This is demonstrated by the fact that the number of beds in two or three-star hotels almost doubled, while that of the four and the five-star accommodations only grew by 10 and 30%, respectively. The decline in state subsidies was already visible as early as the late 1980s, forcing company holiday homes to operate for profit. In 1990, the holiday homes already earned 50% of their maintenance costs by selling some of their beds on the market. The transition process ended by 1993, by which time the majority of the company holiday homes became independent of the former owners, became independent tourist enterprises, and most of the former trade union holiday homes were transformed into a hotel chain – Hunguest Hotels

Co. –, which is the biggest domestically owned hotel company in Central Europe with its nearly 10,000 beds.

Although the refurbishing of these holiday homes is gradually being forced by the market, guests can still see in many places the atmosphere and taste of the bygone days in the equipment and style of the rooms and service units. The number of hotel beds more than doubled in Hajdú-Bihar, Heves, Somogy and Tolna counties. In absolute terms, the increase of the capacity is the biggest in Somogy county (8,672), in Budapest (4,206), Veszprém (3,868), Zala (2,642) and Hajdú-Bihar (2,065), and also in Baranya (1,986) and Heves (1,961). This means that six counties share 78.1% of the 32,535 new hotel beds. The supply of hotels practically stagnated in Jász-Nagykun-Szolnok, Szabolcs-Szatmár-Bereg and Borsod-Abaúj-Zemplén counties. The latter two are counties are facing a crisis of economic restructuring and underdevelopment, which are separately targeted by the government.

The increase in the number of beds in boarding houses, which offer hotel-like accommodations, but require much less investment, due to their smaller scale, shows less concentration. The six counties with the largest number of new beds together share 59.8% of the capacity increase (Somogy 4,403, Hajdú-Bihar 3,076, Borsod-Abaúj-Zemplén 2,523, Szabolcs-Szatmár-Bereg 2,196, Vas 1,648 and Győr-Moson-Sopron 1,568). The number of places in camping sites increased at a moderate pace – by 7.1% –, but their supply more than doubled in Szabolcs-Szatmár-Bereg and Zala, while it decreased in Borsod-Abaúj-Zemplén, Hajdú-Bihar, Csongrád, Somogy and Veszprém counties.

The capacity of organised private rooms decreased by 86,828 places for the period examined, which means the loss of three quarters of the capacity in 1990. During the 1990s, more than 27,000 hosts abandoned this activity in some counties and some 18,500 in Budapest, or their activity became invisible to official statistics and many times even for the local governments. The trust in the mediating activity of travel agencies decreased to a lesser degree in Bács-Kiskun, Békés, Fejér, Vas and Zala counties, where at least half of former capacities worked in controlled forms in 1996.

Meanwhile, we can witness the renaissance of a form of tourism which was forgotten after World War II: rural tourism. As a result of local initiatives, the institution of the reception at guests in the villages is slowly developing into a national network. Rural tourism, unlike organised private rooms, offers the experiences of the beauties of life in the countryside. In the mid-1990s, there are three organisations of national scale with a large number of county level and micro-regional offices and representatives that help the activities and marketing of the hosts and their associations. The Hungarian Tourism Inc. – the organisation responsible for the tourism marketing – published a brochure which contains almost 7,000 beds in 374 settlements – half of them in Transdanubia.

3 The turnover transition of the 1990s

In 1990–1996, the number of domestic guests in commercial lodgings grew by almost 19%, while that of foreign guests decreased by some 20%. The decrease in the total number of guests visiting commercial lodgings was 6.1%. The national average covers significant regional disparities: the interests of the Hungarian guests increased considerably – by 150–200% – in Veszprém, Békés and Heves counties; a moderate growth – 110–135% – can be seen in Budapest, Nógrád, Borsod-Abaúj-Zemplén, Fejér, Komárom-Esztergom, Zala, Somogy, Hajdú-Bihar, Pest and Csongrád, while the turnover of Hungarian guests in the commercial lodgings of Jász-Nagykun-Szolnok, Tolna and Vas counties decreased by more than 10%. In the mid-1990s, it is only Budapest and Zala county which can boast of attracting the same number of foreign tourists within market conditions as in the years before the systemic change. Compared to the previous performance, the largest drop in the turnover – 50–70% – was experienced in Borsod-Abaúj-Zemplén, Csongrád, Jász-Nagykun-Szolnok, Nógrád and Tolna counties.

The number of tourist nights, which better reflects the performance of tourism, has decreased by one quarter in the period in question, and this tendency characterises the turnover of both domestic and foreign tourists. The turnover of Hungarian tourists increased in Békés, famous for its water resorts and thermal spas; in Veszprém, which offers both Lake Balaton and protected natural and historical sights of interest; in Zala, which is home, besides the Lake Balaton, to several spas of international recognition; and in Heves county, which offers a combination of mountains, thermal spas and settlements abounding in cultural values. The number of nights spent by Hungarian tourists declined to a large extent – by more than 40% – in Budapest, Jász-Nagykun-Szolnok, Baranya and Szabolcs-Szatmár-Bereg counties. The number of nights spent by foreign tourists only increased in those counties which have internationally recognised health and thermal spas, offering a complex of services. These counties are Zala, Hajdú-Bihar, and Vas. The decrease in the number of tourists to Komárom-Esztergom, Győr-Moson-Sopron, Pest, Szabolcs-Szatmár-Bereg and Békés counties and to Budapest was less than the national average.

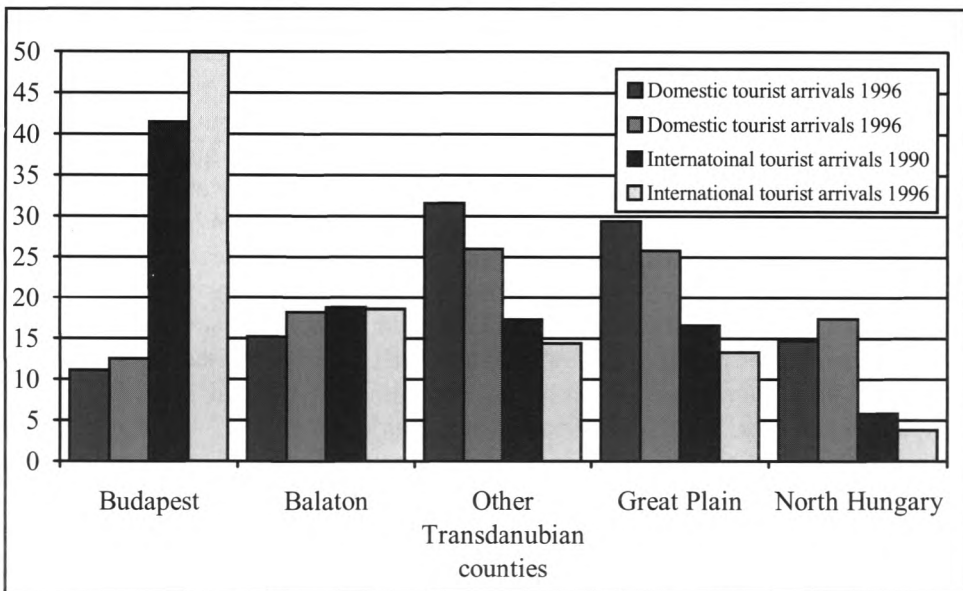
By the use of commercial lodgings, only small-scale transitions can be demonstrated in the regional distribution of tourism. It is Budapest again which is the winner in the fight fought for foreign guests. In 1996, almost 50% of the tourists chose the capital city as their destination. With regard to the number of tourist nights, the position of Budapest only slightly improved – by 2.2% –, exceeding this way 37%. The most popular tourist destinations of those who arrive from beyond the national borders were the counties along the shore of Lake Balaton in 1996 and 1990 alike. One third of the tourist nights spend in commercial lodgings are realised in this region. Less favoured – and less known – by the tourists are

Nógrád, Békés and Tolna counties, the combination of which amounts to only 1.4% of all guests, while they had received 2.2% of them in 1990 (Figure 4).

The turnover of domestic tourism shows a much more balanced regional picture. The increase in the role of Budapest in receiving tourists is minimal, but the number of nights spent by tourists decreased to one half – 10.3% –, which is probably the consequence, among other things, of the world market prices of services in the capital city. The destinations which were the most popular in the mid-1990s – Heves, Győr-Moson-Sopron and Veszprém counties – together received 23.2% of the guests. The least number of tourists, 5.8% altogether, were interested in the attractions of Tolna, Szabolcs-Szatmár-Bereg and Komárom-Esztergom counties. In comparison with 1990, the following counties were able to increase by more than 30% their share of the nights spent by Hungarian guests: Békés, Fejér, Heves, Nógrád, Veszprém and Zala counties.

Figure 4

Change of regional distribution of tourist turnover, 1990–1996 (%)²



Source: Author's own calculation based on the Idegengazdasági Évkönyv, 1990, 1996.

An unfavourable feature of both domestic and in-coming tourism is the short average length of stay (which is especially true of the turnover for commercial lodgings), which can mainly be explained by the shortages in the supply of programmes and in the possibilities for active leisure time activities. The counties which are in the best situation in this respect are those that have well known health and thermal spa resorts – Hajdú-Bihar and Vas – and the three counties in the Balaton region. In these

counties the average length of stay approaches or exceeds the national average in each surveyed category. It is 3.6–8.6 days, depending on the category of the accommodation.

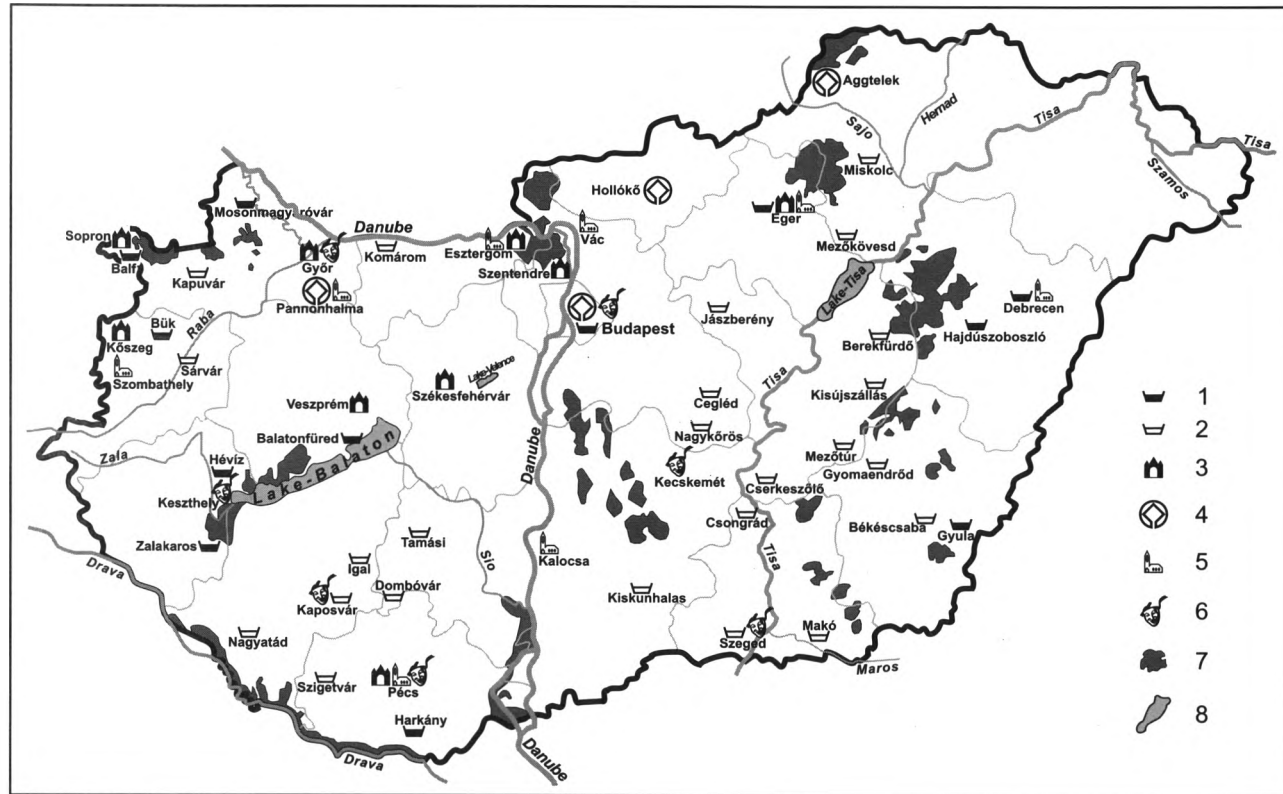
The high seasonality of the turnover of tourists is unfavourable as well, as it limits the influences of those features of tourism which have a positive effect on regional development. Especially at Lake Balaton, the excessive concentration of the turnover in time requires the construction and maintenance of an over-capacity linear infrastructure, disproportionately increasing the operational expenses of the given settlements, while no permanent jobs are created for the local population. So the demand for labour in the peak season has to be satisfied through other areas. Indirectly, these effects prevent tourism from being effectively integrated into the local economy, and does not allow the building of credible relationships between local residents and tourists.

Seasonality, expressed by the share of tourist nights spent in July–August out of total annual turnover, is still very high, in spite of the favourable tendencies of the last three years. In Somogy county, it is over 62%, which is less surprising if we think of the fact that 95% of the turnover of the guests is concentrated on the shore of Lake Balaton. Seasonality is also high in Veszprém (60.4%) and Fejér counties (48.8), as tourism is concentrated on lake shore holidays in both counties. Excessive dependence on German and Austrian demand is not necessarily favourable. The citizens of these two countries booked 44.6% of the tourist nights spent in commercial lodgings in 1996. This is partly the consequence of geographical proximity and partly due to historical traditions, but it also results from formerly one-sided tourism propaganda and its presently slow transition.

The uneven regional distribution of tourism incomes is also explained by the fact that Budapest concentrates a higher share out of the citizens of countries which have a higher specific expenditure. 70.3% of American tourist nights were concentrated in Budapest in 1996, but 71.0% of Italian, 70.3% of British, 66.4% of Scandinavian, 63.5% of French and 58.1% of Russian tourists also spent their nights in the commercial lodgings of Budapest. Out of the regional distribution of the turnover, the following destinations seem to be most popular for both Hungarian and foreign demand: Budapest and the Danube Bend; Lake Balaton and its surrounding environment; health spas – Balf, Bük, Debrecen, Eger, Gyula, Hajdúszoboszló, Harkány, Hévíz, Mosonmagyaróvár, Zalakaros –; historical towns: Eger, Esztergom, Kőszeg, Pécs, Sopron, Székesfehérvár, Szentendre and Veszprém; the sights of interest listed by UNESCO World Heritage: the view of the Buda Castle, Hollókő, the Baradla Cave in Aggtelek and the Benedictine Abbey of Pannonhalma; and those parts of the national parks (Hortobágy National Park, Kiskunság National Park, Bükk National Park, Fertő–Hanság National Park, Danube–Dráva National Park, Danube–Ipoly National Park, Körös–Maros Region National Park, Balaton National Park) which are open to the public (*Figure 5*).

Figure 5

The most popular tourist attractions of Hungary



Key: 1 – Heath resorts; 2 – Thermal spas; 3 – Historic towns; 4 – Parts of UNESCO'S World Heritage; 5 – Religious centres; 6 – Festival towns; 7 – National parks; 8 – Resort lakes.

4 The effects of tourism

Beyond the expenditure of the tourists – invisible export – the general economic effect of tourism should be emphasised with respect to regional development, which can be seen in many dimensions, such as the expansion of employment; the increase in entrepreneurial activity; supplementary investments; improvement in the general environmental culture; strengthening of local identity; penetration of the practice of settlement and regional marketing; expansion of demand for professional and language skills; stimulation of the utilisation of local resources and the sustainable exploitation of knowledge, among other things.

It is estimated that the number of jobs connected to tourism is approximately 250,000–300,000. The definition of the exact number of those employed in tourism is made difficult by the inter-sectoral character of the activity. The official statistical system treats the supply of accommodation and catering services as an independent sector, but it is clear that some of those employed in trade, personal transportation, education, health care, and other social-personal services directly depend on the surplus demand of tourists. The definition of these proportions would be the subject of a separate study and this study cannot deal with them, so the analyses are restricted to the sector of supply of accommodation and catering services.

The regional distribution of those employed in the supply of accommodations and catering services – almost 50,000 people – is concentrated in space and the share of the capital city exceeded 41% in 1996. The weight of this sector in the employment structure of individual counties ranges from 0.7% to 3.3%. The maximum figures are in Zala county, where the attraction of Lake Balaton and three internationally acknowledged thermal and health spas is further strengthened by the location of the county close to the borders of Austria, Slovenia and Croatia. In the diversified economy of Budapest, those who directly serve guests hardly make up 3% of all employees. The role of tourism is the lowest in Tolna county, which is last in the order of the Hungarian counties according to the capacities of all tourism establishments and indices of turnover.

A characteristic feature of the tourism labour market is that a part of the labour force of the supply units operating in the form of family enterprises does not appear in the actual labour force – they are pensioners, students, housewives and other family members. They play an important role in enterprise activity.

Business people interested in the supply of accommodation and catering services do not show a significant regional concentration (the proportion of Budapest and Pest county together does not reach 20%), justifying indirectly the fact that there is not a single part of the world which could not generate some tourism based on its endowments. The technique of getting ahead step by step, which is strongly characteristic of tourism, enables anybody with some skills and imagination to successfully start guest reception even with a limited amount of capital, which can

be the basis of the implementation of a comprehensive tourism development programme.

The spatial distribution of joint businesses operating in the supply of accommodation and catering services is more strongly linked to market demand. One third of them have their centres in Budapest, one sixth of them have their headquarters in a Balaton county, and a significant part of the annual revenues of some businesses registered in Pest county (which has a 7.5% share from the national total) come from Lake Balaton, too.

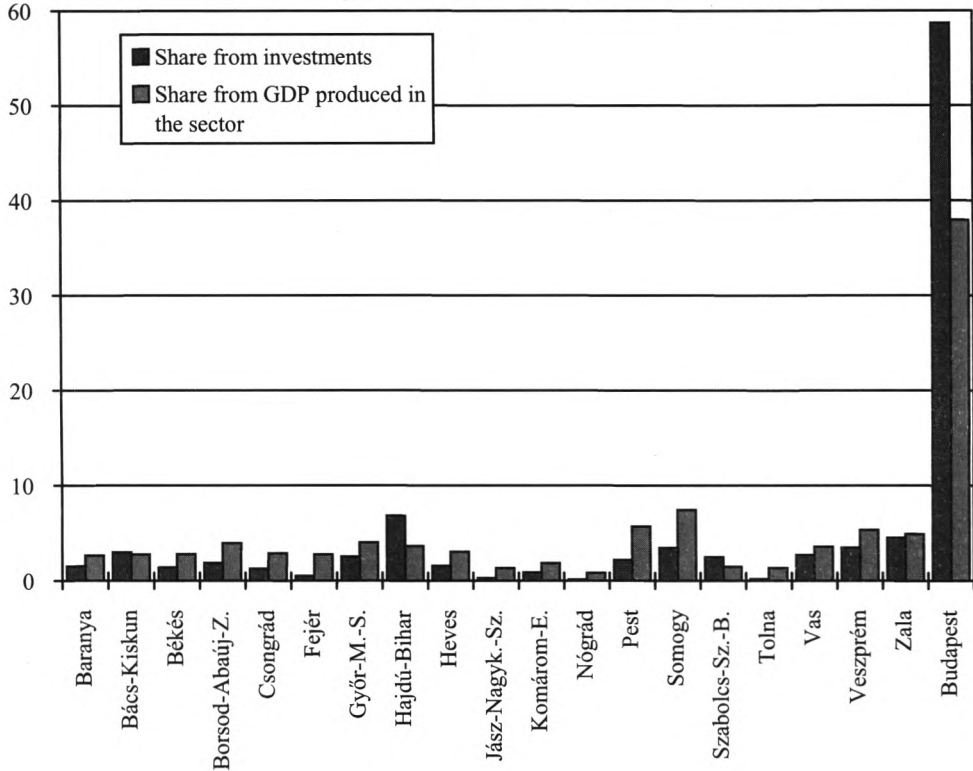
When looking at the investments of companies made in 1992–1996, a concentration exceeding the volume of the turnover of tourists can be seen. Budapest attracted almost 60% of registered investments (*Figure 6*), so its attraction for the guests with a higher level of solvency will probably not decrease in the future and this situation will not help the spatially more even distribution of the incomes flowing in from tourism. If we compare the regional distribution of the investments and of the GDP produced in the sector of supply of accommodation and catering services, we can see that the contribution of Budapest to the GDP produced in this sector was exceeded by far by its share from the sectoral investments in 1992–1996.

Smaller-scale investments not registered by statistics show a more even distribution. In the second third of the 1990s, several tourism development programmes were launched involving family and individual savings and regional co-operation. One of the best examples for that is the birth of the Villány–Siklós Wine Route in South Transdanubia, reflecting the common thinking and action of the local governments, vine-growers, businesses and the inhabitants of seven settlements, which have created a tourist product which is a competitive in European wine routes (*Zsibrik, I. 1998*). Through similar local initiatives, several micro-regions and groups of settlements have made their way in the map of tourist attraction with cultural, gastronomic and sport events, or with programmes offering leisure time activities and nature encounters.

Connected to the development of tourism infrastructure and supply packages – tourist products –, the acknowledgement and application of practical settlement and regional promotion also started to develop rapidly. More and more towns and villages publish inviting informational brochures and open their home pages on the Internet. The marketing skills acquired in tourism are successfully used, especially by large towns, in communication with other target groups as well. Still, it is very rare even these days that a settlement or a region continuously carries out the total process of marketing. The weakest links in the chain are image studies, the selection of the target groups and the evaluation of profitability, as well as the control of marketing. The main reasons for that is the lack of organisations responsible for place marketing. In addition, their financing on the principle of partnership has not been settled yet.

Figure 6

Breakdown of investments in 1992–1996 and of the GDP of 1994 in the accommodation and catering sector



Source: Megyei Statisztikai Évkönyvek, 1992–1996.

A necessary precondition for the development of tourism is the creation of a high quality environment in the settlements. This fact is realised not only by those settlements that are popular tourist destinations but also by those towns and villages which are trying to become tourist destinations now. This effect of tourism is also very important because high quality environments are becoming more and more significant among those soft factors which influence the locational decisions of businesses and investors (*Somogyi, K. G.–Fojtik, J.* 1998).

5 The agents of tourism development

Following the systemic change, priorities shifted from the central authority to the local governments, from direct to indirect control, and from central supply to market conditions. These transitions, besides amounting to an increase in the rights,

responsibilities and therefore tasks of local governments, resulted in the appreciation of bottom-up initiatives and the co-operation of the public and private sector.

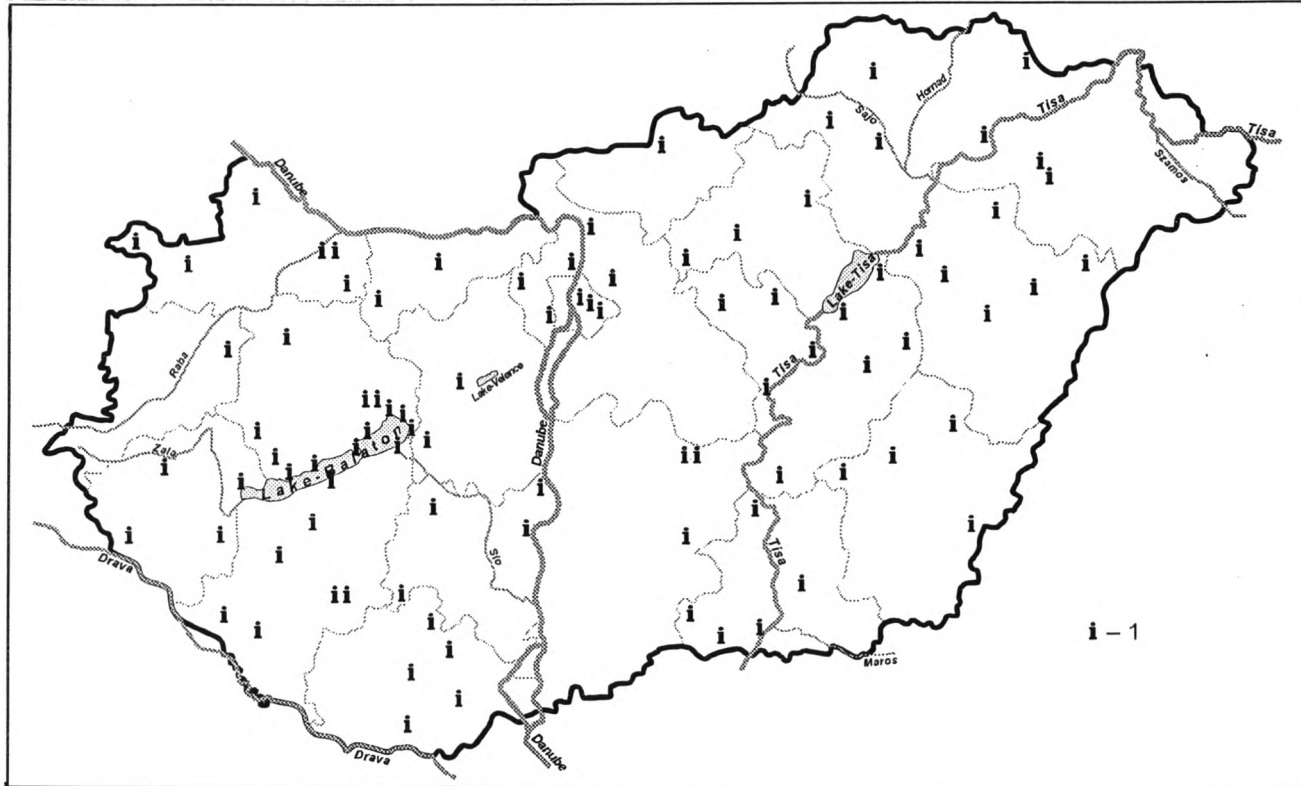
The creation of the tourist product – which involves the total of accommodation, catering, leisure time activities, programmes, or any combination of these – is primarily the task of business people, including the construction and operation of tourism infrastructure in the narrower sense (hotels, restaurants, entertaining and leisure time centres etc.). The marketing of the concrete establishments and services is also the competence of businesses. The private sector also participates in the direct financing of state tasks connected to tourism, as the enterprises interested in tourism pay a tourism contribution which is 0.5–2% of their annual revenues. The payments of the private sector, supplemented by the subsidies from the central budget – which should reach the amount paid by businesses in professional objectives – together make the Target Appropriation for Tourism, from which funds can be awarded to businesses for their product development and marketing efforts, through an application procedure.

Settlement development and physical planning is the competence of the municipalities and the development of tourism should be closely integrated into the development of the settlement. Thus it is inevitable that a settlement which considers tourism as a factor of developing the local economy should form a tourism policy in which they rely on the co-operation with local businesses, as well as the population interested in tourism supply. It is not by chance that the local governments are very eager to accept the development of tourism voluntarily. Especially in the early 1990s, it was the definition of favourable actions, promises, dreams for wide layers of the population, with a relatively small amount of investment, in the implementation of which local governments had only a co-ordinative role. The actual implementation was the responsibility of businesses and capital holders. In the second third of the decade, more and more local governments realised their unique role in the mediation of information. The creation of the national Tourinform network started in 1992. Presently, it has 90 members (*Figure 7*). The professional activity of the offices created on local initiatives is co-ordinated by the Hungarian Tourism Inc., but the members are independent in their work. The State contributes to the establishment of Tourinform offices, by application from the Target Appropriation for Tourism. The instalment of the on-line, computerised National Tourism Information System was also implemented through state support. With the help of this system, all member offices have access to up-to-date tourism supply for any part of Hungary.

Local governments are responsible for creating a tourist image for a settlement and for its marketing, although this could be resolved more efficiently with micro-regional co-operation, by employing experts. Having recognised this, several municipalities initiated the establishment of micro-regional tourism organisations. The resources for the financing of local tasks are provided, as each HUF flowing in from the tourism tax is supplemented by a further two HUF by the state budget,

Figure 7

Network of Tourinform offices



Key: i - Tourinform office.

and the revenues flowing in from the real estate tax are also given. However, local governments are not forced to finance tasks closely related to tourism even from a smaller share of these amounts. Thus municipalities, which have not been explored by tourists yet, do not receive tourists, have no access to this resource.

According to the Act on Local Governments and the so-called Act on Competences, both passed in 1990, the general assemblies of the county governments are responsible in those regions which are outside selected holiday regions for the harmonisation of the regional and national interests of tourism; the exploration, display and promotion of the tourist values; harmonisation of the local tourism developments; and the analysis of the tourism in the region. The general assemblies of the county governments transferred their tourism co-ordination tasks specified in the act from their own competence to their committees with different sectoral interests. It is exceptional that these committees are tourism committees – even if only in their name. Much more frequently they re-connected to economic, communal, regional development committees appearing as sub-committees. Each county government transferred the implementation of the tasks in connection to the regional control of tourism to a department of the county government office, or to budgetary organisations partly or totally independent of the office. The responsibilities allocated to these institutions are extremely diverse. The most important tasks are those related to different forms of tourism promotion, such as:

- exploration and registration of the touristic endowments in the county;
- organisation of the preparation, implementation and dissemination of tourism promotion materials – in some cases even the complete implementation of all these activities;
- creation and maintenance of a standard tourism image for the county;
- the creation of a tourism information base for the county and connecting it to other Hungarian and foreign systems;
- organisation of the participation of the county and the representation of the county in tourism fairs and exhibits;
- co-operation in the harmonisation of promotional activities with the organs operating in the county or interested in the tourism of the county;
- support for promotional activity in national tourism organisations.

The need for the co-operation in settlement and regional tourism developments is just as important:

- opinion on the independent development concepts of the individual settlements or the joint development concepts of the smaller areas;
- contribution to the elaboration of the tourism aspects of regional planning;
- harmonisation of physical and regional development plans with the interests of tourism;
- assistance, elaboration and management of tourism projects until they become independent enterprises;

- registration of some tourism business projects, partner finding and mediating services;
- completion of tourism development programmes for the counties.

The following important fields, where the county governments have taken up responsibilities, are relationships, public relations, representation of interests. In the framework of that, the county governments

- organise and control Hungarian and foreign tourism connections to the county;
- represent the county – and its settlements – in Hungarian and international regional organisations and in the National Tourist Board.

The next category of tasks is the flow of information “upwards” and “downwards” and the analysis of the regional processes of the tourism market. These tasks also help to increase the acknowledgement and reputation of tourism. The non-profit offices of the counties took a significant part in the organisation and promotion of cultural, sports, scientific and other. programmes of regional, national and international attraction. The creation, operation and management of separate county level financial funds serving tourism development purposes are also listed among the tasks.

Naturally not each local government tourism organisation is responsible for all the above listed tasks. The individual tasks might have a different weight in the certain countries, which basically is not determined by the geographical location of the county and the performance of tourism in it; the personal attitude of the representatives, office leaders to tourism, and the financial conditions of the county are just as important factors. Nevertheless, we believe that the detailed foregoing list well reflects the intention of a county to take an active role in the development of tourism.

The carrying out of the co-ordination tasks of the county governments is largely hindered by the fact that the Act on Competences did not provide appropriate tools for their implementation. The normative subsidy from the central budget transferred to the county governments does not contain any part “labelled” for tourism purposes. Also, the county governments have no right to levy taxes, so it depends on the personal determination of the representatives and leaders in the local governments whether they are brave enough to allocate financial means for tourism purposes or not. The financial tools separated for tourism purposes are usually county funds or foundations which are accessible through application procedures. The county governments did not conceal their intention of using such funds, which is to utilise the stimulating effect of the financial means provided by the funds. In light of this, the maximum proportion of the support provided by county government was set at 30–50% of the actual costs. The associations, inter-municipal co-operations initiated or supported by the county governments are also co-ordinative tools which can be used in the regional control of tourism. The result of the opera-

tion of such associations is the establishment of some of the Tourinform offices, the completion of regional level product development and marketing plans and actions.

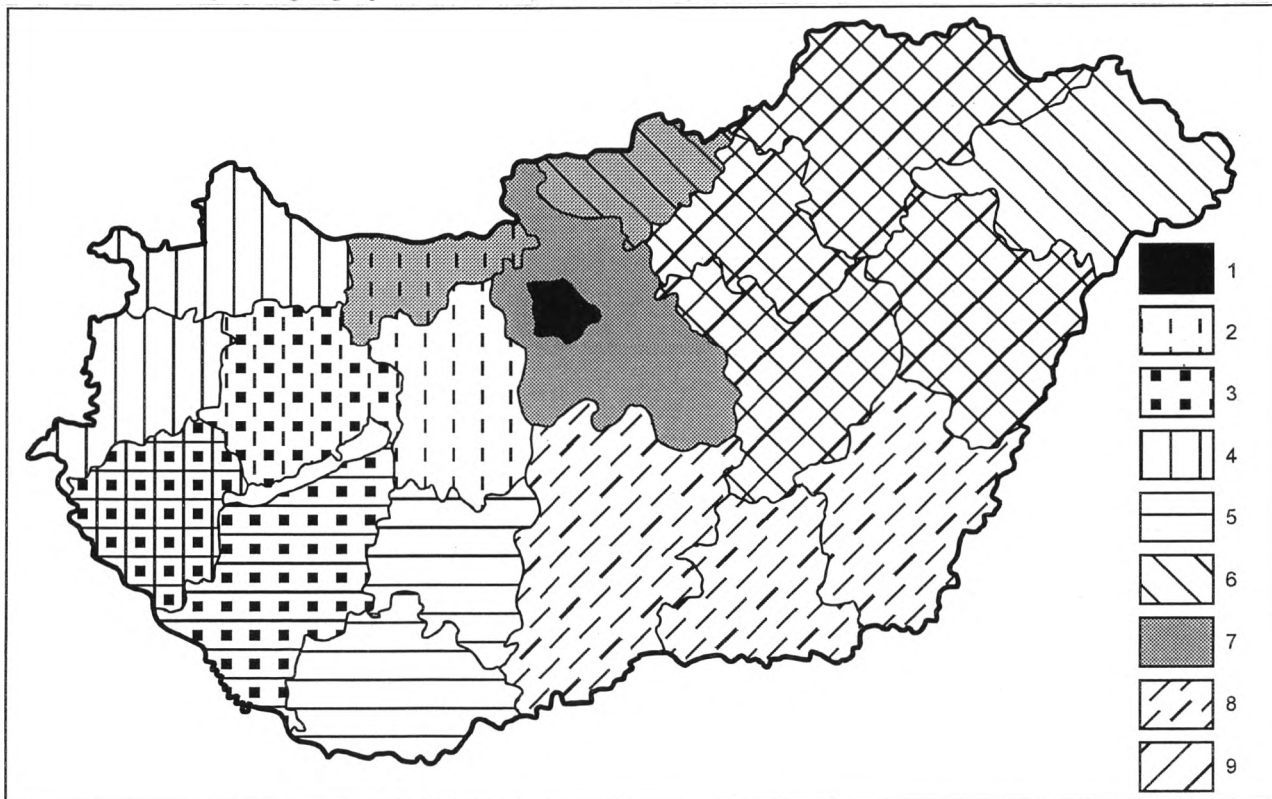
The county tourism concepts, strategies and plans prepared or ordered by county governments can also be indirect tools for regional co-ordination. These concepts, strategies and plans, if offered to the municipalities and the already operating micro-regional associations, can influence the direction of tourism infrastructural and products developments and marketing activities at the level of the local governments and their associations (Somogyi, K. G. 1995). Because the coordinative activity of the county governments was occasional, and the system of selected holiday regions did not cover the total territory, it was necessary to establish medium level control organisations for the representation of tourism. The government passed decree No. 1007/1998 (23 January) on the modernisation of the regional administration of tourism, which created a new administrative and institutional system better helping the harmonisation of the interests of the national economy and the tourism business. The members of regional tourism boards are, apart from county governments, the chambers of commerce and the regional representatives of professional and social organisations. The activity of regional tourism boards is thus mainly based on professional participation, which offers more favourable possibilities than before for asserting a professional interest in tourism.

The tasks which the regional tourism boards are responsible for include

- the definition of a tourism development programme for a region and the co-ordination of its implementation, co-operating with the regional development council which operates in the given region;
- promotion of the development of tourism infrastructure;
- stimulation of the formation and operation of micro-regional co-operations in tourism;
- co-ordination of marketing, product development and information works;
- preparation for participation in European Union regional programmes;
- decision on the use of local regional tourism development resources;
- on request, participation in the monitoring of the use of central financial tools allocated for tourism.

Unlike the formerly operating executive committees of the selected holiday regions, the regional tourism boards cover the whole territory of Hungary, so they are able to promote effectively the development ideas of any micro-region. The minister of industry, trade and tourism, with bill 28/1998 (13 May), delimits the regions on a large scale, only listing the names of the comprising countries (Figure 8). The original intention of the sectoral administration was to draw the borders of the tourism regions in a way that the territory of competence of the individual

Figure 8

The geographical areas of jurisdiction of Regional Tourism Committees

Key: 1 – Budapest; 2 – Central Danubia; 3 – Lake Balaton; 4 – Western Danubia; 5 – South-West Hungary; 6 – Northern East Hungary; 7 – Central West Hungary; 8 – South-Alföld; 9 – Lake Tisza.

regional tourism boards should be identical with the borders of the regional development areas – in order to create much better positions than the previous ones for the complex of regional development – but this was only partially achieved. According to sectoral division, there are nine counties which belong to at least two regional tourism boards (which will cause conflicts in the distribution of scarce resources); also, Lake Tisza is not an independent unit in regional development. During the operation of the regional tourism boards, the real tourism regions will have to be defined by the borders of the settlements, which will be able to operate according to local intentions and with much less territorial overlaps.

The question might emerge regarding why it was necessary to create independent regional tourism boards and their working organisations, besides the already existing regional development councils and their working organisations. The professional argument for duplication is that the tasks of the two organisations are different. In the background, however, there is the lack of trust. The tourism trade cannot see any guarantee that the decentralised part of the Target Appropriation for Tourism, which consists in the separate sectoral funds of the central budget and the amounts paid by the businesses interested in tourism as tourism contributions, really serves the direct objectives of tourism development and if its use is decided by those interested in regional development.

The definition of the objectives of tourism policy, the integrated planning of supply, the influence and control of business behaviour – stimulation of enterprises, modernisation of professional requirements –, the construction of basic infrastructure and the assistance to national promotion are the key points of state participation. In the government cycle following the systemic change, the issue of tourism remained on the periphery. After the 1994 elections, the Sub-committee of Tourism was established within the Environment Protection and Regional Development Committee of the Parliament, but it was unable to represent well enough the interest of tourism in the legislative process.

The year 1996 brought about several favourable changes: on 10 May, 1996, an open day was organised in the Parliament for tourism, where the representatives of tourism could directly inform the member of the parliament about the problems and tasks of tourism;. The acknowledgement of the importance of tourism in government circles is demonstrated by the fact the in the name of the competent ministry, besides industry and trade, the word “tourism” appeared. The organisational order of the sectoral administration was transformed, too, the National Tourism Board was replaced by the Department of Tourism in the ministry. The National Tourism Council, working as an inter-ministerial consulting organ for the minister, was replaced by the National Committee for Tourism, which consists of professional representatives, and which is not only a consulting body for the minister but also entitled to make some strategic decisions. The activities of the Hungarian

Table 2

Applications and subsidies from Target Appropriation for Tourism, 1997

Megnevezés	Number of applications		Subsidies	
	Received	Succesfull	Amount (1000 HUF)	Distribution (%)
Baranya	74	33	70,831	6.1
Bács-Kiskun	47	26	19,461	1.7
Békés	34	21	26,193	2.2
Borsod-Abaúj-Zemplén	108	48	38,253	3.3
Csongrád	37	25	31,543	2.7
Fejér	37	16	20,083	1.7
Győr-Moson-Sopron	73	48	95,779	8.2
Hajdú-Bihar	41	28	111,723	9.6
Heves	64	35	40,700	3.5
Jász-Nagykun-Szolnok	38	27	25,268	2.2
Komárom-Esztergom	45	21	14,446	1.2
Nógrád	23	18	13,526	1.2
Pest	80	54	46,163	4.0
Somogy	93	52	121,377	10.4
Szabolcs-Szatmár-Bereg	44	33	31,571	2.7
Tolna	30	13	12,303	1.1
Vas	32	25	31,020	2.7
Veszprém	98	49	42,688	3.7
Zala	62	40	50,948	4.4
Budapest	415	136	318,732	27.3
Magyarország összesen	1475	748	1,162,608	10.0

Source: Heti Turizmus, 1998/13.

Tourism Inc., which is 100% the property of the ministry, have been expanded. Among its primary tasks are the redefinition of the tourist image of Hungary, the promotion of Hungary on the international tourism market and the development of the reception base of tourism.

One of the means for the implementation of tourism policy is the Target Appropriation for Tourism. The target appropriation, which can be gained through an application process, is an effective assistance to the co-operation of the actors in the different branches of the economy who are interested in the development of tourism. Besides strengthening regional relationships, the target appropriation supports the ideal and practice of regional co-operation as well, as in the decision on several product development and marketing applications.

6 Summary

The regional co-ordination of tourism is inevitable, but the tools for that have to be created, too. The biggest problem is the different allocation of the resources, tasks and competences. Revenues are generated at the levels of the central budget, the municipalities and local businesses, while the co-ordination is the responsibility of the regional tourism boards – before 1998, the executive committees of the selected holiday regions – and the counties, who have the right to express their opinion and state their recommendations, but cannot make decisions, or oblige anybody to provide information, and cannot fine anybody for breaking the rules of environmental or consumer protection.

The tourism sector is in a rapid transition now – regional effects are hard to put into numbers, but favourable processes are already visible in many fields. In the second half of the 1990s, more and more officials consider tourism as an effective means of regional development, similar to the practice in the European Union, because:

- tourism can assist the involvement of resources into income generation which otherwise would not make or would only make less profit;
- many forms of tourism can offer supplementary incomes for the population living in areas struggling with problems of restructuring or in rural areas;
- the requirements of new jobs created by tourism triggers an increase in the education level of the population;
- tourism assists the preservation of traditions, architectural values, production skills, in other word, the local culture, and contributes to the strengthening of local identity;
- through the development of infrastructure and services, tourism contributes to making life in the countryside more modern and comfortable.

The activity and expressed co-operative intentions of businesses, local and regional governments, the appearance of the issue of rural development in government priorities, and the central and regional system of tourism administration all offer the possibility for the reduction of regional and territorial concentration in tourist supply and demand. Hence, tourism may contribute more effectively to the reduction of regional disparities in the future.

Notes

- ¹ The Central Statistical Office only collects the data of those accommodations which have more than 20 beds – in case of camping sites, more than 50 beds.
- ² The applied regional division might seem arbitrary, as it follows neither the borders of the selected holiday regions nor tourism or statistical regions; still, it seemed rational based on the available statistical data of the counties. In this division, the Balaton region consists of the data of Somogy, Veszprém and Zala counties; the Great Hungarian Plain those of Bács-Kiskun, Békés, Csongrád, Hajdú-Bihar, Jász-Nagykun-Szolnok, Pest and Szabolcs-Szatmár-Bereg counties; North Hungary contains the data of Borsod-Abaúj-Zemplén, Heves and Nógrád counties.
- ³ The Central Statistical Office only collects the data of those economic entities which have done investments or renovations worth 10 million HUF or more in the given year.

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THE HUNGARIAN BANKING SECTOR AND REGIONAL DEVELOPMENT IN TRANSITION

ZOLTÁN GÁL

1 Preface

The main intention of the present study is to explore the regional characteristics and effects of the Hungarian banking system on the regional development of the country during the period between 1987–1997, during the so-called period of economic transition. I wish to survey the spatial structure and development tendencies of the banking network at the regional and settlement level. The allocation of banking institutions and branches play an important role not only in the development of the national economy as a whole, but in the development of local and regional economy and innovation and, last but not least, in the organization of production and service sectors.¹

In developed countries, the allocation of resources and capital is implemented by capital markets. On the one hand, they are carried out by *credit and insurance institutions* (the money market), and on the other hand, through *securities exchange and brokerage agencies* (the capital market). Banks are the intermediaries and participants in most of these financial transactions. They organise financial space by developing new products, markets, trading forms and sets of rules. A widely accepted definition of a bank is based on borrowing and lending: the bank is a financial intermediary which accepts deposits and makes loans. Both activities must be included. But financial intermediaries offer many other services: bill discounting, custodial services, fund management, factoring, fund transfer and security brokerage in case of the universal banking system. The EU has adopted these “German-type” of banking activities.²

Elements of the banking network are connected to regional development as the supply section of the business service sector; therefore, the density and number of banks and branches are an important indicator of regional economic development. The role of the banking network, as a consequence of its financial intermediary function, is important in the geographical and inter-institutional redistribution of resources. This motivates research on the spatial structure of banking. Publications in economics, apart from the macroeconomic and technical aspects of the banking business, do not deal with the regional structure of banking.

Surveys on the regional structure of banking are most important because, in the last decade, the Hungarian banking system underwent fundamental transformation following bankruptcies, bank consolidations and privatization processes, sometimes accompanied with strong state intervention. The role of the state in these processes became a bone of political contention and media scrutiny, but the internal world of banks remained closed and business and network building strategies still constitute trade secrets.

The structure and functioning of the banking system is generally an essential factor in national and regional development in Central and Eastern Europe. Banking has played a special role in the modernisation of the region for the last 150 years. Industrialisation and the development of technical infrastructure (e.g. the railways) in the period 1850–1950 would have been impossible without banks. Hungary, following the pattern of Germany and Austria, applied a universal banking system in the second half of the 19th century. Despite the fact that the Hungarian banking system is to some extent still lagging behind western countries, we cannot say that there is an inherited gap between Hungary and Western Europe because despite some delay, by the turn of this century, the Hungarian banking system was well developed in comparison to international standards. Moreover, it became one of the most rapidly growing sectors of the domestic economy.

The postwar history of the Hungarian economy, including the financial sector, is a history of nationalization and the introduction of a centrally planned economy. By 1948, the whole financial sector was nationalized, and the one-tier banking system was characterised by a monopoly of the *National Bank of Hungary*. This meant a direct line to the monetarisation of the economy that was financed through an oversized redistribution.

At the beginning of the 1980's, a particular contradiction evolved between existing small-scale enterprises wanting to finance their functioning and the one-level financial system based on the credit monopoly of the National Bank. (This was despite the foundation of special financial institutions, established until the middle of 1980s, represented by *Hungarian Foreign Trade Bank /MKB/*, *Central European International Bank /CIB/*). The major reform of the banking system came into force on January 1st, 1987. It resulted in the reintroduction of the *two-tier banking system* by separating business credit activities from the central bank. By the end of the 1980s, it had become clear that the basic insufficiency of the financial system was the lack of a capital market, as autonomous market actors require not only the financing of their activities, but also a durable resource capital for their development. This recognition led to the re-establishment of the *Budapest Stock Exchange*, the only stock exchange in the country. It has been one of the most rapidly growing stock exchanges of transitional economies.

2 The structure of the Hungarian banking system

Since the reintroduction of two-tier banking in 1987, the banking system was opened up to the world as a competitive and rapidly growing sector. The transformation into a market economy, the radical diminution of the state's role in the business sector, privatization, foreign capital inflow, a more intensive participation in the international division of labour and European integration all provided new opportunities and challenges for banking. The new actors of a rapidly developing economy, the mushrooming of associations and corporations and the greater demand for corporate and retail markets will transform the present banking system. Money markets will undergo radical rearrangements in the future and the balance of power will change as a consequence of market competition. Banks struggle for larger shares of the expanding market and for new customers which require both the expansion of the banking network and the perpetual innovation of banking.

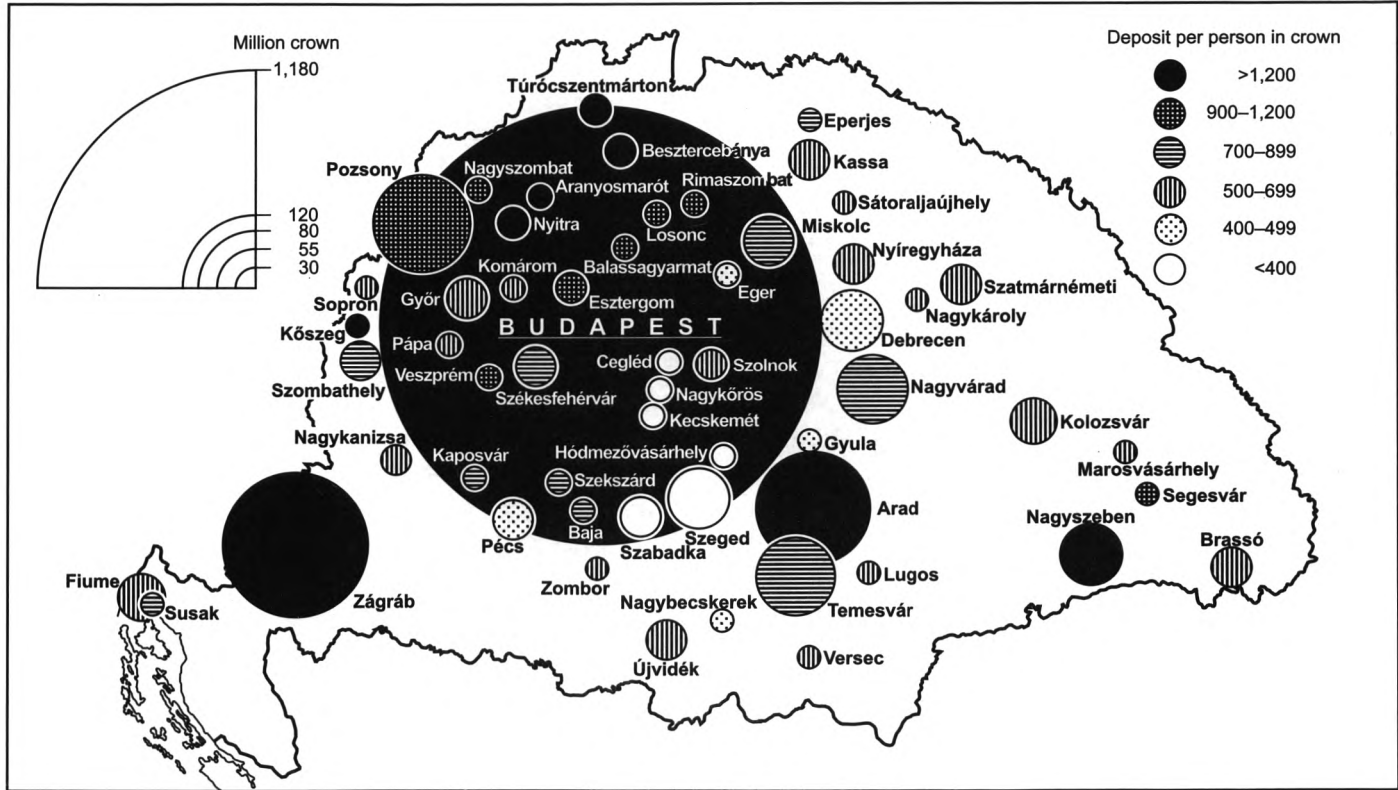
The banking system was reborn a decade ago, raising questions regarding the evaluation of its consequences, problems and future prospects. Were someone to compare the state of our recent banking system with the banking sector of the turn of the century, one can find many similarities between them. Both were created following a change of regime and coincided with the early stages of modernisation that was characterised by an original accumulation of capital, by an early foundation of credit institutions, by a mass inflow of foreign capital, by the foundation of joint-venture banks and by bankruptcies that demanded new legislation on banks and the creation of the public supervision of banking in both eras. The predominant position of Budapest in the money market and in banking is as important as it was 100 years ago. Budapest still has a good chance of becoming an off-shore type regional financial centre for East Central Europe (*Figure 1*).

The leading position of Budapest in financial sectors especially in banking and insurance is more striking than in any other sectors. All banks, except one, hold their headquarters in Budapest. This very high-degree of concentration in banking is unique even by European standards, where in most countries significant provincial banking centres operate nationwide networks. This considerable degree of concentration implies a 85–90% of foreign capital investments, joint-venture banks and bank transactions. Since the establishment of the Budapest Stock Exchange in 1990, the centre of capital markets is concentrated into the capital city.

The Hungarian banking system is characterised by a lack of local and regional banks, in contrast to other transitional economies such as Poland, where the role of regional banking is significant. International patterns of financial markets, conducted by large international (global) financial centres, have been transformed due to dissolution of local and the alteration of regional markets. Accordingly, the banking system partly conforms to the development tendencies of global financial markets, which are subject to the condition of an existence of a financial-service centre. The predominance of Budapest in the national economy marks the peculiarity of development in Hungarian banking.

Figure 1

Hungarian cities having the greatest bankdeposit funds in 1910



3 The development of the banking system, 1987–1997

The formation of the two-tiered banking system has three important roots. The National Bank of Hungary became the central bank, while some of its departments and other existing banks were turned into commercial banks. These are the *Budapest Bank (BB)*, *Magyar Hitelbank (the Hungarian Credit Bank, MHB)*, *Országos Kereskedelmi és Hitelbank (the National Commercial and Credit Bank, OKHB)* and *OTP (the National Savings and Commercial Bank)*. These were equipped by a licence on commercial banking transactions. Besides these previously existing banks, sectoral and state investment funds and affiliated branches of foreign banks were obliged to turn into joint-stock companies and to be transformed into commercial banks. These included *Agrobank (Agrarian Bank)*, *Ybl Bank*, *Iparbank (Industrial Bank)*, *Magyar Külkereskedelmi Bank (MKB)*, *CIB*, etc.. As a consequence of this, five commercial banks and specialised credit institutions started to operate in 1988.

The short period between 1989 and 1992 was a culminating point of bank founding, resulting in the operation of 36 banks based in Budapest. Foreign banks also founded joint-ventures, bought shares in Hungarian banks or opened branch offices in Hungary. In August 1991, there were 17 commercial banks owned only by Hungarians, 13 banks with foreign participation, an additional five specialised financial institutions and 17 branch offices were opened by foreign banks.³

In 1991, soon after its ratification, the bankruptcy act was enforced during the first bankruptcies (*Ybl Bank*, January 1992). The strong wave of establishment and expansion of banks coincided with a period of general economic recession following the economic transition in the early 1990s. Over-gearred expansion of balance-sheets and increasing risk-taking stood in contrast with the low level of financial standing and the huge sum of inherited debt that was accumulated in the central bank before 1987. This automatically led to the loss of market shares of Hungarian owned banks and the strengthened position of foreign banks. Pecuniary difficulties of mainly state-owned banks made the restructuring of the banking sector inevitable. Together with loan, bank and debtor consolidation, as it often referred to, this was one of the most important economic policy programmes in the first half of the 1990s. On one hand, the program was to alleviate, at least partially, the consequences of the tremendous losses accumulated in the economy.⁴ On the other hand, it also had to contribute to the evolution of a market economy, particularly in bringing about important structural changes through the privatisation of banking so as to develop a modern financial system. Banks showing deficits gained huge amounts of capital from the state, which imposed a substantial burden on state finances and thus on society as well. The main purpose of bank consolidation and privatisation was to decrease the percentage of state ownership in banking sector to a minimum of 25%.⁵

During this process, a few big banks were successfully privatised by foreign investors (*Budapest Bank, MKB, MH, K&H*), while a few smaller banks went into bankruptcy and were liquidated (*Ybl Bank, Agrobank, Leumi Hitelbank, Iparbankház*). The two largest deposit collecting banks in the retail market have not been privatised yet. Bad investment strategies and outstanding claims resulted in pecuniary difficulties for *Postabank and Savings Bank*. Protraction in loan consolidation and bank privatisation highlighted the dangers which imposed a huge burden on the state budget because the public supervision of banking has not forced strong measures on the banks in the interest of structural changes during the consolidation. The example of long process of privatisation of the Postabank illustrates risks in which management could not protect the liquidity and stability of their bank and this finally led to state intervention by the re-purchase of the majority of shares.⁶

One of the most important alterations of the banking system was that the *role of foreign capital in ownership was defined*, which together with consolidation started a slower expansion in banking by 1997. Growth in banking after five years of stagnation for the first time in 1996 exceeded GDP growth, resulting in a 1.8% increase in the annual balance-sheet footing (4,490 billion HUF compared to 3,694 billion HUF in 1995).⁷ Parallel to stabilisation processes, the growth of newly established banks halted and the founding of joint-ventures and subsidiaries of foreign banks were compensated with mergers and liquidations through the *strengthening of concentration in banking*. In the near future, new types of banks will form, serving the special interest of the money market (mortgage banks, municipal and regional banks), but the concentration in banking will continue. There is continuing interest in banking and by the end of the first decade the *shares of foreign capital became significant* in two-tiered banking. Its share in the banking capital attained 65%, gaining the majority of market shares within a short time.⁸

During 1989–1991, which is the so-called “booming period” of the banking system, foreign banks opened the most subsidiaries (14 banks were opened). The foreign share of the market was 1% in 1987, 11% in 1990, 15% in 1994 and was trebled during 1995–96 (49.3%). An additional shift in the ratio took place in favour of foreign ownership by 1997 (60%), partly due to favourable international reports on the Hungarian credit status and banking. Foreign capital inflow into Hungarian banking at the beginning took part in privatisation and gained shares in joint-ventures (mixed ownership), but from 1991 onward foreign banks founded their subsidiary companies in Budapest as green investments (19 subsidiaries of foreign banks were operative in Hungary by 1997).

In the past decade, the proportion of foreign shares in Hungarian joint-venture banks increased to 73% by 1996 and in 1998 there were foreign ownership majority in 27 banks, in addition foreign investors gained shares in 19 banks. In the case of *Citybank*, the American partner purchased the Hungarian shares and became the sole owner of the institution. Due to the movement of the international money market, foreign proprietorship in the banking system undergoes perpetual changes

(e.g. in the case of *Unicbank* 15% was German and 85% Hungarian in 1987, which shifted to a 95% Austrian ownership), but the main investors according to the portion of the invested capital were still the German and Austrian business people followed by American, Dutch, French, Japanese and Korean investors. The activity of Dutch banks is indicated by the fact that all the top-ranking Dutch banks opened subsidiaries (*ABN Amro*, *ING*, *Rabobank*). The British banks can be seen by their conspicuous lack and the *European Bank of Reconstruction & Development* (EBRD), based in London, is considered as an international bank⁹ (Table 1).

Table 1

Proportion of foreign capital in the Hungarian banking system

	1987			1991			1996		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Europe									
Germany	2	260	0.4	3	884	0.7	7	15,503	7.4
Austria	2	260	0.4	5	3,817	3.1	6	14,508	6.9
France	1	110	0.2	3	884	0.7	4	4,987	2.4
Italy	1	110	0.2	4	1,419	1.1	5	4,427	2.1
Holland	0	0	0.0	4	1,220	1.0	2	2,701	1.3
Russia	0	0	0.0	0	0	0.0	1	3,500	1.7
America									
USA	1	806	1.3	1	1,660	1.3	2	9,802	4.7
Far-East									
Japan	1	110	0.2	3	1,434	1.2	3	4,893	2.3
Korea	0	0	0.0	1	3,154	2.5	3	6,094	2.9
International banks*	1	150	0.2	4	803	0.6	3	8,510	4.0
Others	0	0	0.0	2	1,652	0.8	10	9,759	4.6
Sum-total	3	1,910	3.1	17	16,685	13.6	29	84,684	40.3

(1) Foreign bank shares in number of Hungarian banks

(2) Amount of foreign capital in registered capital (million HUF)

(3) Proportion of foreign capital in the total registered capital of Hungary (%)

* EBRD, IFC, CECD

Foreign capital inflow into the banking system accounted for 60 billion HUF, together with the ownership shares from privatisation, comprising a total of 140 billion HUF that was directly invested into banks based in Budapest but ran through the channels of a branch network.¹⁰ Foreign capital investment contributes significantly to the growth of international competitiveness of banking. (Per capita investment of foreign capital accounted for 1,520 \$ in Hungary in contrast to 680 \$ in Czech Republic and 318 \$ in Poland).¹¹

Summarising the role of foreign capital in the banking system, it can be said that such a rapid process of privatisation in banking without foreign capital inflow

would have been impossible. The new ownership structure which occurred in banking is quite different from most of developed European countries because of the high portion of foreign ownership. (British banking system has the highest portion of foreign proprietorship with 64%). New possible tendencies will come to exist in the market in the near future, due to the introduction of the Cross-Border Banking Act, which according to the EU regulations will provide wide opportunities for foreign banks to open branches without founding a subsidiary bank. This new liberalisation would increase competition and foreign shares in the banking system.

4 The dimension of the Hungarian banking system

There are several indicators to measure the stage of development and economic position of banking. The most widely used indices in comparative surveys are *balance-sheet status*, *number of employees* and the *extension of the branch network*.

The most commonly used index is the *ratio of balance-sheet status to GDP*, which indicates the state of development and the role of banking as intermediaries in economic transactions. This ratio significantly decreased in Hungary just before the privatisation process due to capital losses experienced in banking (it was 66% in 1995). This is presently about 72%, which is characteristic for developing countries. (This ratio is 110–240% in EU countries). This highlights that there is great potential for the expansion of banking and for banks to gain more shares both in the corporate and the retail market. The latter one is the more important because strong banks compete with each other in order to gain a larger portion of the retail market, 70% of which is not covered by the banking service yet.¹²

According to the balance-sheet, *six big banks* operated in the last decades, namely: *OTP, Postabank, K&H, MKB, MH, Budapest Bank*, which had more than 200 billion HUF of circulation in 1996. Three additional banks had turnover exceeding 100 billion HUF: *Creditanstalt (Bank Austria), Raiffeisen Unicbank and the CIB (Central European International Bank)*. This latter one merged with *CIB Hungaria* in 1998 and became the second largest bank in Hungary, according to profit before taxes (PBT).¹³ Within this group the most interesting change was last year when *the second largest retail bank of Hungary, Postabank*, produced a great amount of loss before taxes which retarded its development for a certain time. Within this group of banks, Magyar Hitelbank, purchased by ABN Amro with the introduction of a new policy adopted from Holland, has started an expansion mainly in the reatail market. CIB, Creditanstalt and Raiffeisen Unicbank also experienced a rapid press forward¹⁴ (*Table 2*).

Medium size banks have turnover capital between 20 and 100 billion HUF. This group can be divided into two segments: big-medium size banks include dynamically

Table 2

*Annual balance sheet footings and number of employees in
Hungarian banking 1991–1996*

	Date of found- ation	Owner- ship	Number of bran- ches ^c	Balance sheet footings (million HUF)				Number of employees		
				1991	1993	1995	1996	1991	1993	1995
<i>Big banks</i>										
1. OTP	1949	HT	423	669599	830958	1072777	1256085	12659	14367	..
2. Postabank	1988	HT	41	89863	168085	269632	378718	987	1472	2173
3. KH	1987	K	174	214234	231723	342294	360003	3891	4112	3837
4. MKB	1950	KT	20	238319	238293	330516	347901	1500	1512	1333
5. MHB ^{a,ABN-Amro}	1987	K	78	321824	357463	246091	250873	4180	4322	3095
6. Budapest Bank	1986	KT	74	146067	156605	212931	225380	2085	2952	2831
7. CIB	1979	KT	0	35000	76010	144113	175021	267	184	174
8. CIB Hungária	1988	KT	12	26341	45135	126424	134712	..	168	268
9. Creditanstalt	1990	K	12	28400	27202	77074	116119	111	193	343
<i>Medium sized banks</i>										
10. Raiffeisen Unicbank	1986	KT	9	28450	36083	77117	109630	88	152	309
11. Mezőbank ^d	1986	K	81	29984	34544	80883	97152	401	657	720
12. Citibank	1985	K	0	35248	36474	59628	93196	97	150	216
13. MFB Rt.	1991	H	0	–	20468	57805	91921	–	117	184
14. IEB	1980	KV	14	35090	40540	62387	91117	202	323	417
15. ING Bank	1991	K	14	2564	20283	64558	84005	..	80	..
16. Commerzbank	1993	K	0	–	11027	57994	75270	–	40	74
17. ÁÉB	1922	K	8	19766	26148	37970	71657	270	294	279
18. Takarékbank	1989	H	22	36760	37323	40360	66789	281	509	613
19. BNP- Dresdner Bank	1990	K	0	9836	15014	35252	50639	..	90	115
20. Credit Lyonnais	1992	K	0	–	12577	28627	42160	..	..	..
21. HYPO-Bank	1993	K	5	–	4831	22349	40198	–	30	160
22. DAEWOOD Bank	1989	K	0	11291	12854	25048	38774	44	54	76
23. ABN Amro	1993	K	0	–	5566	29826	38430	–	19	50
24. EKB	1991	K	4	6612	8700	23081	33631	34	46	110
25. WestLB Hungária	1985	KT	1	12890	9186	20372	31975	113	122	110
26. Pénzüntézeti Központ	1983	H	3	–	15364	24001	29768	–	354	244
27. Polgári Bank	1993	H	15	–	2900	27069	29764	–	210	291
28. Konzumbank	1986	H	25	16016	11725	12894	27590	179	332	354
<i>Small banks</i>										
29. Realbank	1989	H	29	10200	13948	16622	20704	63	..	..
30. Volksbank	1992	K	5	–	1227	9356	15579	–	24	52
31. Merkantil Bank	1988	H	3	4508	5530	11772	13689	66	90	93
32. EXIMBANK	1994	H	0	–	1267	5196	12134	–	..	66
33. Corvinbank	1984	H	6	10449	18375	12558	11888	91	173	193
34. Porsche Bank	1994	K	0	–	500	7834	7072	–	..	52
35. Opel Bank							4630			
36. Hanwha Bank	1990	KT	1	4206	5613	4551	4371	65	74	59
37. Kvantum Bank	1991	H	0	1036	1050	3164	3581	16	39	68
38. Deutsche Bank							2994			
39. IC Bank	1993	K	0	–	979	1087	2330	–	..	22
40. Rákóczi Bank	1992	H	0	–	1056	1072	1689	–	18	22
41. Nomura	1991	K	0	1042	1037	780	774	8	11	10

K = foreign ownership, KT = majority of foreign shares, H = Hungarian ownership, HT = majority of Hungarian shares, KV = joint-venture with foreign ownership. ^aState of development at the end of 1996; ^dIn 1995 together with balance sheet footings of Agrobank; ^eAz ABN Amro Bank purchased 89% of MHB in 1996.

developing foreign banks such as *Általános Értékforgalmi Bank (ÁÉB, General Banking and Trust)*, *Citibank*, *Magyar Fejlesztési Bank (Hungarian Development Bank, MFB)*, *Inter-Európa Bank*, *Commerzbank* and *Takarékbank (Co-operative Savings Bank)*. This latter one was purchased by DG Bank which increased its competitiveness significantly. At the same time, the efficiency of *ING Bank* slightly diminished due to the network expansion. Smaller banks, such as *Hypo Bank Credit Lyonnais*, *Wesdeutsche LB*, *Konzumbank* and *Daewoo Bank*, reached the group of *small-medium size banks* due to their significant expansion in the last few years. The *Pénzüntézeti Központ* and *Polgári Bank* are included in this group as well.

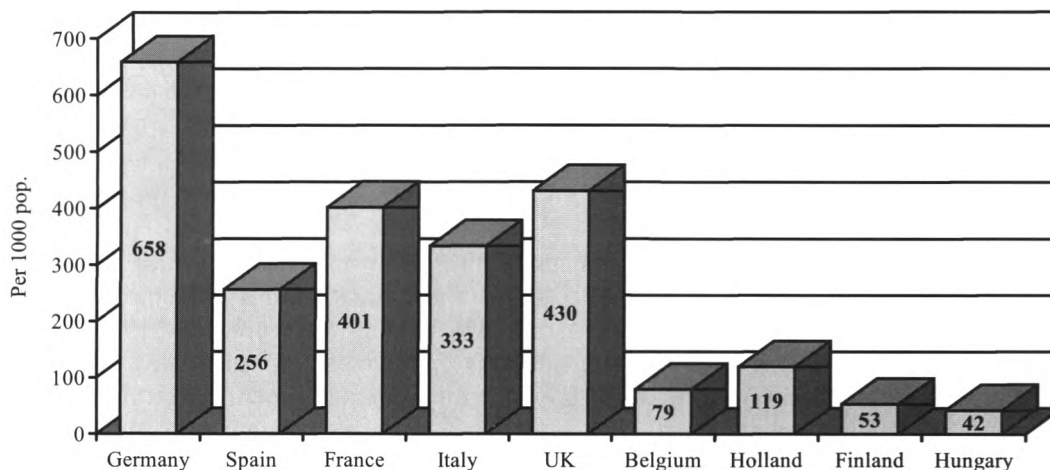
The group of *small banks* implies banks with a turnover below 20 billion HUF, which are institutions with either larger branch network (*Realbank*) which experienced serious losses in its registered capital following bankruptcy in 1998 or state/stage before expansion (*Volksbank*). This group includes specialised banks (*Porsche Bank*, *Corvinbank*, *Rákóczi Bank*) and those banks dependent on foreign capital inflow produced losses (*Hanwha*, *Nomura*, *Magyar Befektetési Bank*).

Market analyses predict further mergers and bankruptcies in the overcrowded banking market, resulting in stronger concentration in the near future. In 1996/97, three new banks appeared in the market (*Deutsche Bank*, *Rabobank*, *Opel bank*, *Südwestdeutsche LB*). New mortgage banks started to operate and *Dunabank* and *Iparbank* ceased to operate. In the future, foreign owned, dynamically developing small and medium sized banks are expected to grow faster at the expense of the big ones.

From the shares of the active population in banking and from *the number of employees in banking*, a conclusion on the economic importance of banking can be partly drawn. Surveying the ratio of employees in banking from 1910 until now, it can be seen that in 1910 only 0.28% of active employees worked in the banking sector. This ratio grew right after the Trianon Peace Treaty. It reached 0.64% exceeding slightly the European average, which was exaggerated regarding the smaller territorial and economic potential of Hungary that time. During the 1930s employment decreased slightly and by 1948 it drastically decreased in banking. Only afterwards could it reach the 23 000 employees who were working in 1920. The number of employees reached 45 000 in 1990, but after that is started to diminish and by 1996 fell back to 40 464 employees. However, the ratio of employment in banking expanded within the share of employees from 1% in 1990 to 2.5% in 1997. (This ratio in EU countries ranges from 2–4%.)¹⁵ (*Figure 2*).

Taking changes to the importance of Budapest into account, it can be seen that 50% of employees in banking were concentrated into the capital city around the turn of this century, which suddenly increased after Trianon, resulting in a concentration of two thirds of the employees within Budapest (it accounted for 3.5% of employees in the city). In the following decades, the number of employees experienced a slow decrease and after 1948 a very rapid decrease (9,406 employees

Figure 2

Employment in banking in some European countries (1994)

in 1980). From 1987 onward, the number of employees started to grow even in Budapest and 14,000 employees accounted for a 42% share of employment in the banking sector as a whole. In the banking and insurance sector of Budapest 26,135 employees worked in 1995 that was 3.65% of the total employment in Budapest. Summarising, the central role of Budapest in financial services grows significantly – highlighted by the rapid increase in employment – and cannot be limited by the overall expansion in banking in the rest of the country. (In contrast, Vienna had 42,000 (5.6% of total employment), and in Munich 59,000 (9.8%) worked in banking and insurance.) (Figure 3, 4)

Employment is distributed unevenly and big banks employed 79% of employees and dynamically developing medium size banks usually employ 150–350 staff, resulting in a better ratio of staff (employment) efficiency than the bigger or smaller banks. There is a difference between Hungarian and foreign owned banks with regard to staff efficiency, to the advantage of the latter ones. There are few cases of employment decrease in banking. On the one hand, big banks with larger number of employees experienced rationalising (e.g. OTP), but on the other hand, medium size and smaller banks are parallel with the growth in the activity and expansion of their branch networks.

Regarding the size and extension of the branch network, there are fewer large banks. OTP has the largest network (411 branch offices), in contrast to other banks, that had to close more than 200 of their previous branches. Banks founded in the second half of 1980s usually have 30–140 branches. About two thirds of banks operate with a limited number of branches and quite a few foreign banks have not opened branches yet or just recently started to develop a branch network.

Figure 3

Employment in banking & insurance in some cities (1996)

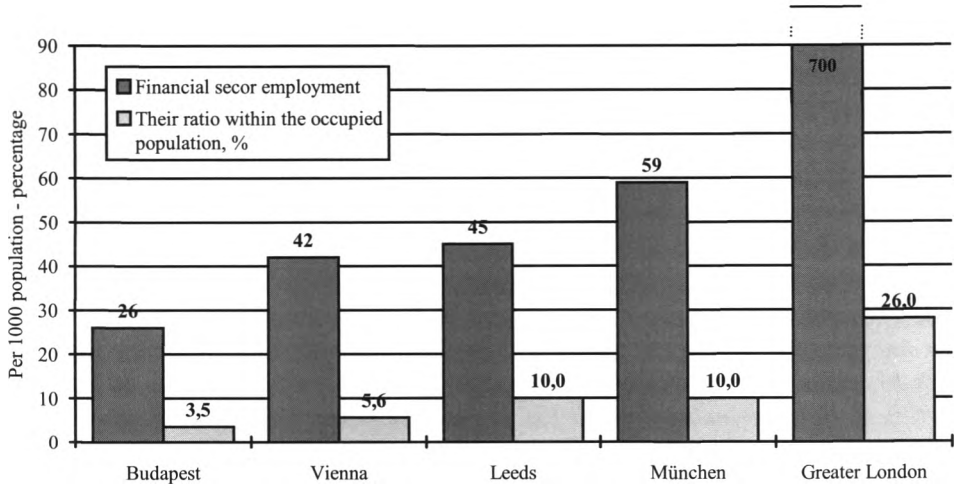
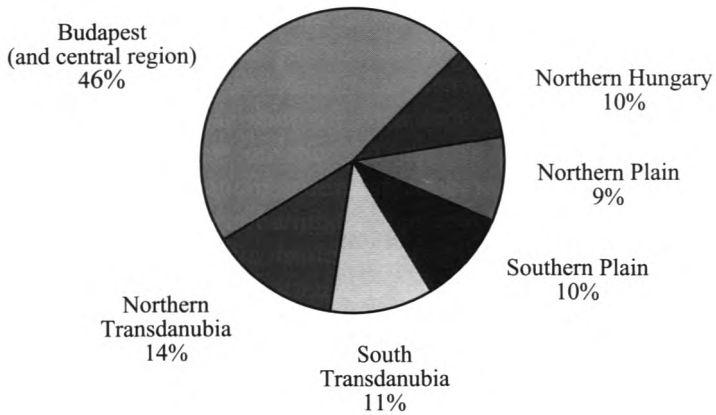


Figure 4

Regional distribution of employment in banking (1996)



The grouping of the banks depends on the length of period that has passed since the foundation of a bank. Since 1990, only 4 banks gained access to medium size banks. IBUSZ Bank as a subsidiary of the *KH* significantly increased its turnover. The rest of these four banks are foreign owned. *Creditanstalt*, *ING Bank*, *Commerzbank* experienced a very fast branch development which is all the more spectacular because before 1996 none of them had branches. Five of the medium size banks are exclusively connected to the Budapest market, indicating the economic power of the capital city.

CIB, *Unicbank*, *Hypo Bank IEB* started the development of their branch network only a few years ago after they stabilised the operation of their institutions. So they did not endanger the further development of their banks with a forced branch network building. This was not the case for the *Agrobank*, *Mezőbank* (*Cooperative Savings Bank*) and *Takarékbank*. From the very beginning, they started to build an oversized network and it was operated with a very low staff efficiency. At the same time, their turnover (60–100 million HUF) remained very much lower than that of the other group (100–700 million HUF). Recently, *Creditanstalt*, *CIB*, *Unicbank*, *ING*, and *IEB* are undergoing a very fast branch network expansion. In the field of network building ABN Amro has some advantage with the purchase of the entire MHB network.

5 The network characteristics of the banking system

At the turn of the century, the Hungarian banking system could be characterised as a universal system, consequently commercial banks combined all banking functions into one institution. They collected deposits, offered short-term working capital and long-term investment loan. They invested into securities and acquired equity participation in industrial and other enterprises.

In contrast to Hungarian traditions, a specialised banking system has been created, sorting the different types of banks by functions (*Table 3, 4*):

- There are 32 *commercial banks* in the banking system, offering payment services; they borrow and lend but they do not participate in securities underwriting and trading, which is the realm of investment banks. (Originally, commercial banks gave short-term self-liquidating trade loans). Commercial banks in Hungary have a continuous intention to expand their business towards universal services.
- There are *eight specialised banks* which provide services for certain activities such as factoring, securities, and car purchase loan.
- Besides mortgage banks, investment banks and building societies have been established.
- There are 246 mutual savings banks (cooperative savings banks) collecting household savings and operating mainly in the countryside (villages, small towns).

Table 3

The structure of the Hungarian banking sector, 1994

Banks	Number of banks			Number of branches		
	Total	Budapest	Provinces	Total	Budapest	Provinces
National Bank	1	1	–	19	1	18
Commercial bank	34	34	–	1,224	211	1,013
OTP (National Savings Bank)	1	1	–	600	80	520
Specialized bank	8	7	1	16	8	8
Investment bank	1	1	–	1	1	–
Mutual savings bank	255	1	254	1,637	29	1,608
Mortgage bank	1	1	–	1	1	–
Credit union	4	–	4	4	–	4
Total	304	45	259	2,901	250	2,651
Without savings b.	45	44	1	1,260	221	1,039

Table 4

The structure of the Hungarian banking sector, 1997

Banks	Number of banks			Number of branches		
	Total	Budapest	Provinces	Total	Budapest	Provinces
National Bank	1	1	–	19	1	18
Commercial bank	32	32	–	946	229	709
OTP (National Savings Bank)	1	1	–	420	96	324
Specialized bank	8	7	1	7	2	5
Investment bank	1	1	–	1	1	–
Mutual savings bank	246	1	245	1,740	31	1,710
Mortgage bank	1	1	–	1	1	–
Credit union	4	–	4	4	–	4
Total	292	43	250	2,722	265	2,446
Without savings b.	42	39	1	978	234	732

At the turn of the century, banks founded through the provinces, cities and towns were dominant in the Hungarian banking network, having practically no branches tied to Budapest. On the one hand, a couple of big banks held 54% of the total assets of the banking system and, on the other hand, only 5.7% of banking institutions were concentrated into the capital city. Parallel to the dominance of Budapest in banking assets, there were 1,429 banks and 2,742 cooperative savings banks scattered throughout the provinces. During the interwar period, as a consequence of the increasing concentration in banking, more and more institutions of

the provinces became affiliates or subsidiary branches to big banks in Budapest. By 1938, the number of independent institutions fell from 4,425 in 1910 to 1,619.

The Hungarian banking system is characterised by a strong spatial concentration. The leading role of Budapest is unique even in a European context. The fact *that every bank is headquartered in Budapest* results in a deformed structure in the banking system. Banking in Hungary is still the most centralised branch of the economy. However, this strongly monopolistic structure is matched even more by international tendencies which are characterised by overconcentration at a global level.¹⁶

As a consequence of this, banking shifted from local and regional financial markets to national and international money markets, but, parallel to this concentration process, the *growing significance of regionalism* requires the establishment of regional money markets and institutions financing regional policies. Enterprises booms, privatisation, bank presence in local markets (a source of collecting and lending) and competition for retail markets require the expansion of banking networks to the countryside. Despite virtual banking probably becoming widespread in the future, to build a more cost-intensive branch network is still very important. Partly because of the lower standard of development of communication networks and because to develop contact with customers takes time, traditional direct relationship between banks and their customers through branches (at desks) will be a priority for a long time.¹⁷

Since the Hungarian banking system is characterised by overcentralised management, controlling and structural system, branches are not in a real decision-making position, partly because they have got only limited information. Branches of banks based in Budapest had much less room for making independent decision than branches in the county seats during the communist period. Most of the banks offer the same services all over the country and do not have local advertising strategy. Banks usually do not lay stress on the uniform appearance of their branch offices; therefore appearances very much depend only on the hierarchical position of a certain bank. Apart from the fact that most of the strategic decisions in every case are made at headquarters of banks in Budapest, there are other disadvantages that derive from the lack of regional and municipal banks. Before 1948, the activity of municipal and local banking institutions expressed much better the interests of local entrepreneurs.

From the deformed spatial structure of banking network of the early 1990s several problems remain to be solved. One of these is the lower density of the network which means both the low level of availability of branch offices and the higher structural polarisation of the branch network. On the one hand, this means that the rapid expansion of banking is concentrated almost exclusively into Budapest and is not followed by the extension of branch network at a rapid pace in the countryside. On the other hand, new banks established in 1987 inherit a particular branch office network from the National Bank of Hungary and have different characteristics in

terms of capital intensity and inherited customers' circle. Every big bank has inherited branch offices in all counties, but OKHB dominates in rural counties, MHB dominates in counties with significant processing industry, and the branches of the Budapest Bank are concentrated into the capital city and within counties with heavy industry. As a consequence of this, MHB, for example, is missing from all seats except one of the counties of the Great Hungarian Plain and from South Transdanubia, excepting Pécs. Problems of branches missing from certain counties seats are accompanied by a spatial-regional asymmetry. KH is dominant in the Great Hungarian Plain region, while MHB in North-Transdanubia and BB around Budapest.¹⁸

Taking the *network of the OTP Bank* and mutual saving banks into account, the special character of their network can be seen. The network of National Savings Bank (OTP) and mutual savings banks of the countryside had already been operating before the introduction of two-tier banking, so those were not influenced by regional differences occurring within Hungary. OTP Bank had had branch offices before the change of regime, usually in all settlements with population exceeding 5,000. But after adjusting its network to a market environment, it had to close more than 200 of its previously operating offices. OTP had 627 branches in 1991, which decreased to 411 in 1998 (*Table 5*).¹⁹

The other marginal pole of the national banking system is the *most dense network of mutual savings banks* scattered throughout the countryside. The most important disadvantages of these are their weak financial standings and a lack of strong centres or headquarters. Despite the number of mutual savings banks, 1,740, accounting for 64% of the total national network, most of these small savings banks situated in smaller towns and villages have a very low capital circulation and can supply only a narrow range of services. The possible solution for mutual savings banks would be integration followed by a decrease in the number of institutions, which could be compensated by the foundation of new offices in larger cities. In conclusion, the polarisation of the Hungarian banking system in the early 1990s was caused on the one hand by the banks operating without considerable branch networks and on the other hand by a dense network of badly capitalised mutual savings banks.²⁰

The turn of the 1980s and 1990s was the first boom period in the establishment of banks. 17 commercial banks founded about 350 branches concentrating 85% of the new offices into provincial cities. The most active branch builder was MHB during a five-years period, increasing the number of its offices four-fold. BB doubled its network, while the growth of KH accounted for only 60%, although this bank had more than 150 branches before the start of expansion in 1987. (*KH* after a merger with *IBUSZ Bank* inherited the largest network – except OTP – with a presence at least in 101 Travel Agency Offices which could be transformed into bank offices at lower costs.) *Postabank* and *Mezőbank* experienced spectacular

growth in their network. *Konzumbank*, *Takarékbank* and the later bankrupted *Ybl Bank and Agrobank* expanded at a very rapid pace.²¹

During the next period of the two-tier banking system between 1992–1996, network building was considerably restructured. The expansion of the banking system was determined very much by a huge inherited debt from the 1980s together with an obligation of the very high amount of reserve capital accumulation, which imposed a large burden on institutions. Smaller banks went into bankruptcy (*Ybl Bank*), others were liquidated (*Dunabank*, *Iparbankház*), while *Polgári Bank* was merged into *Pénzüntézeti Központ Bank*. Big banks rescheduled their policy of network building and few of them closed some of their branch offices (e.g. the number of the offices of KH decreased by 28), but other banks such as *Budapest Bank* and *Postabank* started a spectacular growth in network expansion. (This latter one opened 41 branches and 240 agencies with a narrower service supply.) (Figure 5)

Foreign owned banks started to expand their branch network more cautiously than only after 1995. There are different reasons for this more cautious policy. On the one hand, these banks were strong enough in terms of capital intensity, so that they could adjust the pace of their network building to their own pace of development. On the other hand, foreign owned banks were interested in corporate banking, first of all supplying services for joint-stock companies. The boom period of the establishment of joint-stock companies was in 1990–1991 and afterwards the corporate market started to become saturated. From the mid-1990s onward, foreign banks started to expand their branch network. By the end of 1997, IEB, CIB, Unicbank and Creditanstalt (Bank Austria) have opened 13, 13, 9 and 13 branch offices in the provinces respectively. ING Bank acquired 14 offices of Dunabank and Hypo Bank increased its branches by 14 offices within one and a half years.²²

The general characteristics of the period between 1992–1996 is the growing importance of Budapest in the expansion of the branch network. All branch building banks opened 2–3 new offices in the capital city in the past five years. In 1996, contrary to the one and a half dozen existing branches by the end of 1997, twenty-seven Hungarian banks had branch networks. However, the number of branches decreased between 1993 and 1997 because of well known reasons. But 978 branches, recently operating, in all probability will increase as a consequence of the growing importance of retail markets (70% of the retail market is still not covered by banking). (Figure 6)

The interpenetration of international capital and money markets of the world is a strengthening process of concentration and globalising tendencies in banking as well. Growing competition in global money markets, decrease of market shares, enhancement of cost intensity require more and more mergers in banking. According to certain forecasts, by the year 2000 there will be 15–20 global big banks in the world's money markets while already 4–5 big banks have been playing a predominant role in most of EU countries.

Table 5

Branch networks of commercial banks, 1987–1996

	Found. year	1987 sum- total	1991			1996		
			Budapest	provinces	sum- total	Budapest	provinces	sum- total
Mutual savings banks	–	..	..	..	1,800	31	1,709	1,740
OTP	1949	..	129	498	627	96	327	423
KH	1987	51	4	75	79	31	143	174
IBUSZ Bank ^{a,b}	1991	–	21	80	101	(23)	(70)	(93)
Mezőbank	1986	2	1	29	30	11	70	81
MHB	1987	25	15	78	93	12	66	78
Budapest Bank	1986	26	7	43	50	15	59	74
Agrobank ^{b,c}	1984	5	1	13	14	(7)	(46)	(53)
Postabank	1988	0	5	18	23	12	29	41
Reálbank	1989	0	0	0	0	0	29	29
Konzumbank	1986	0	1	11	12	4	21	25
Takarékbank	1989	0	4	14	18	2	20	22
MKB	1950	2	1	6	7	9	11	20
Dunabank ^{b,d}	1987	1	1	4	5	(5)	(13)	(18)
Polgári Bank	1993	–	–	–	–	4	11	15
Iparbankház ^{b,e}	1984	1	1	6	7	(2)	(12)	(14)
IEB	1980	0	0	2	2	2	12	14
ING Bank	1991	–	–	–	–	0	14	14
Creditanstalt	1990	–	1	1	1	5	7	12
CIB Hungária	1988	0	0	0	0	1	11	12
Unicbank	1986	0	0	0	0	0	9	9
ÁÉB	1922	0	5	0	5	8	0	8
Corvinbank	1984	1	0	3	3	2	4	6
Volksbank	1992	–	–	–	–	2	3	5
HYPO-Bank	1993	–	–	–	–	0	5	5
EKB	1991	–	–	–	–	0	4	4
Pénzüntézeti Központ	1992	–	–	–	–	1	2	3
Merkantil Bank	1988	–	0	0	0	0	3	3
BKD	1990	–	0	0	0	2	0	2
Investbank ^{b,f}	1983	0	0	0	0	(0)	(2)	(2)
Hannwha Bank	1990	–	0	0	0	1	0	1
Citibank	1985	0	0	0	0	1	0	1
WestLB Hungária	1985	0	0	0	0	0	1	1
Ybl Bank ^f	1983	4	2	8	10	–	–	–
Ingatlanbank ^g	1989	–	0	3	3	–	–	–
Sum-total		..	199	892	2,890	252	2,570	2,822
Without OTP, MSB		118	70	394	463	125	534	659
Other banks without branches		2	13	0	13	12	1	13
Sum-total		120	83	394	476	137	541	678

^aMerged into KH in 1996; ^bData relating to 1995; ^cMerged into Mezőbank in 1996;

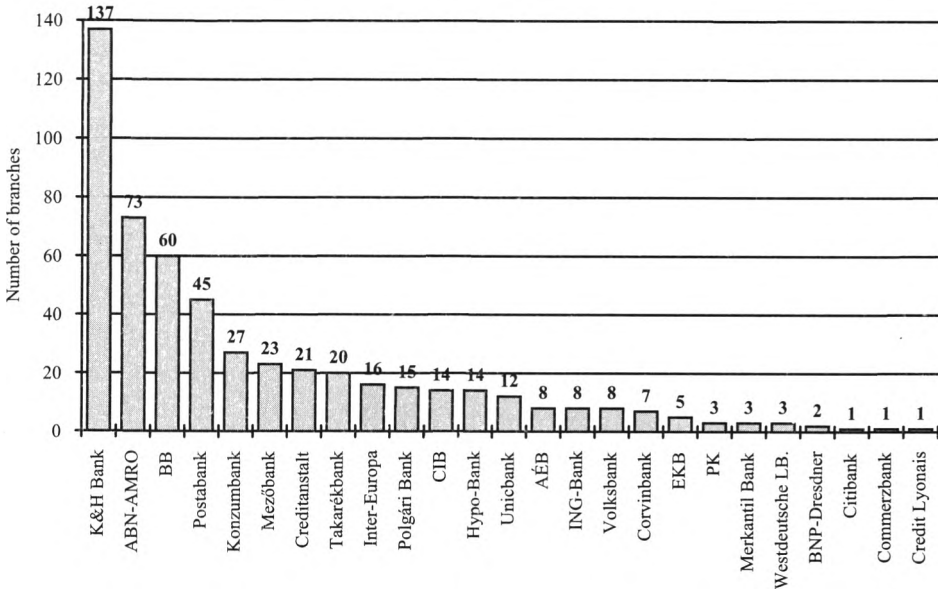
^dPartly purchased by ING Bank in 1996; ^eLiquidated by 1996; ^fLiquidated during 1992–1993

^gLiquidated during 1991–1992

Source: Hungarian Almanac of Financial and Capital Markets, 1991, 1995–1996.

Figure 5

*Branch networks of the Hungarian commercial banks in 1996
(OTP is not included)*

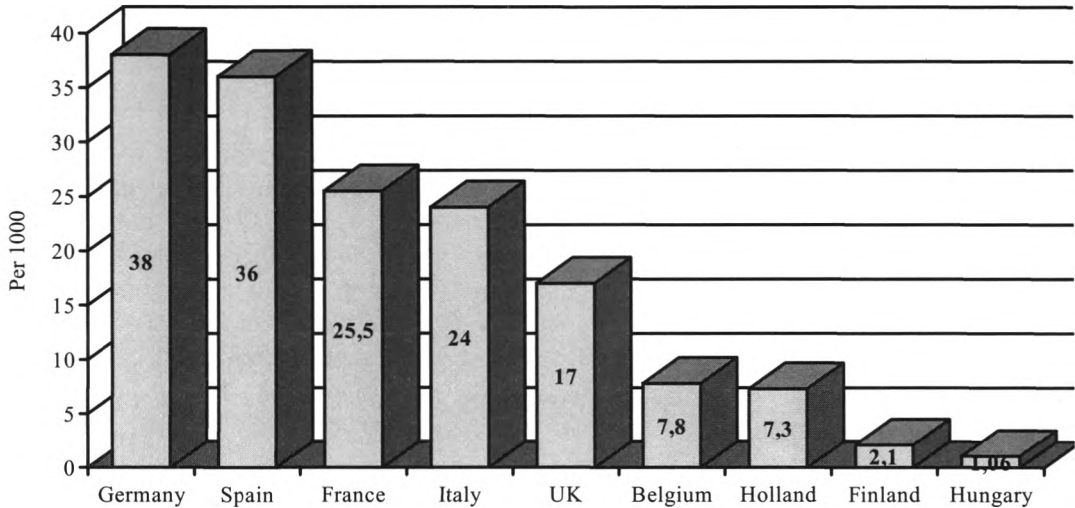


In Hungary, parallel to international and European tendencies, banking underwent a very significant network extension in order to catch up to time-lag in banking network building. Between 1992 and 1996, the number of banking institutions decreased due to bankruptcies, mergers and purchases through privatisation. During 1995–1996, six banks were liquidated or merged into other commercial banks. Among these only *Bank Leumi* did not have branches. Branch offices of *Agrobank* merged into *Mezöbank* and *IBUSZ Bank* was merged into *KH*. The network of *Dunabank* was purchased by *ING Bank* and the Hungarian subsidiary bank of *ABN Amro* purchased *MHB* with its extended network. *Iparbank* was closed down in 1996 without any legal successor. The liquidation of banking institutions were compensated by the foundation of new Hungarian subsidiaries of foreign banks.

The developing Hungarian banking system provides wide expansion possibilities for banks and other specialised financial institutions. Balance of power in the banking system occurred by the end of the first decade of two-tier banking is expected to be rearranged during the next decade, the development of which will be characterised by expanding money market and growing competition for larger market shares. The next few years will be the period of continuous network building

Figure 6

Number of branches of banking in some European countries (1995)



and the development of supply-side services, especially in the retail market, in order to gain the larger shares of market. According to surveys, few big banks (including foreign owned ones) with considerable financial standings will dominate in the retail market. Besides these, 10–15 banks will play an important role in the banking system. The development of the Hungarian banking system probably will be adjusted to the standard of the European Union and a universal banking system will follow.²³

Summarising, the tendency in banking is the further concentration of banks which will lead to the gradual decrease in the number of independent banking institutions. Nowadays, the leading positions of big banks founded in 1987 are endangered by other dynamically expanding banks (*ABN Amro, CIB, Unicbank, Creditanstalt*) operating with better cost efficiency and performing a better structure of capital stock.

While shares of the five (10) largest banks in 1990 was 83 % (92) of the total assets of the banking sector, by 1997 the shares of the five largest and oldest banks decreased to 54%, and the ten largest banks, including newly established and more dynamic institutions, accounted for 72% of the assets of banking.²⁴

The expansion of banking networks improves the ratio of supplied customers, but with respect to per capita density of network Hungary is lagging behind its Western European counterparts, where 1,500–3,000 of inhabitants are served by a single banking office. In 1993, 3,659 inhabitants were served by a single banking office, including offices of mutual savings banks, in contrast to 850 in Austria,

1,220 in Switzerland and 1,595 in Germany. Excluding the offices of less significant mutual savings banks, 10,400 inhabitants were served by a single Hungarian branch in 1997, proving that the density of banking network is still lower than the demand for banking services, which requires a more intensive strategies in network building .

6 The banking network in Budapest

Budapest has had a traditional predominance in the economic and cultural life of Hungary, which has not diminished since the change of regime. On the contrary, the leading role of the capital city in higher business sectors increased considerably since the appearance of the market economy. The most rapid development and capital concentration in Budapest occurred in branches of the tertiary industry that determine economic development, such as research and development, informatics, tourism and banking. The exclusive role of Budapest in finance is a function of its rapidly growing reputation.

At the turn of the century, about the two thirds of the number of employees in banking were concentrated into the capital city. But with respect to the number of institutions, the process proceeded in an opposite direction. A dense banking network was dominated by banking institutions in the provinces. In 1910, out of 4,423 credit institutions only 86 banks and savings banks and 168 additional mutual savings banks were situated in Budapest, accounting for 5.7% of total credit institutions. At the same time, more than 50% of domestic capital stock was allocated to Budapest banks, so the most important bank transactions even in those times were concentrated in the capital city.²⁵

During the interwar period, provincial banking centres suffered from a disadvantage of capital shortage. Before the Trianon Treaty, dynamic, well developed provincial centres had existed, which had had large hinterlands and higher regional functions. After 1920, only Budapest remained as this kind of centre, which directly led to an overall predominance of the capital city over Hungarian spatial structure. The five largest banks in Budapest exceeded in importance all other provincial city banks and subordinated provincial credit institutions, which turned into branches for the “five big ones”. Hence, in banking business, Budapest may be expected to have had most of its financial dealings (channelled through banks) directly under its own supervision rather than through intermediary credit institutions. In the postwar economy the predominant leading position of Budapest grew enormously.

While from the beginning of the 1980s the disintegration of the corporate sector and the growing number of new actors contrasted with the former process and spatial and organisational concentration in banking grew significantly. *Institutional headquarters were by then all based in Budapest.* Attempts to found a re-

gional bank have failed until now, partly due to the explicit reluctance of banks in Budapest and partly because of a lack of interdependence and capital in the provinces. Banking is still the most centralised branch of the economy with a definite centre in Budapest. This also means that national banks and the subsidiary companies of foreign banks preferentially opened headquarters and principal offices in the capital city. This situation is particular to Hungary because in many places in Europe provincial cities are also centres of important banking institutions.

Within Budapest, most of the principal offices of banks are based in the inner districts. The spatial concentration of institutions gives strong impetus to the formation of "the city". This is all the more important because Budapest did not have a real city centre during the last 50 years and a city-centre had not emerged in the Western sense during the previous period. The formation of a business and administration orientated city centre is related to the mushrooming of an economically pivotal business service sector.²⁶

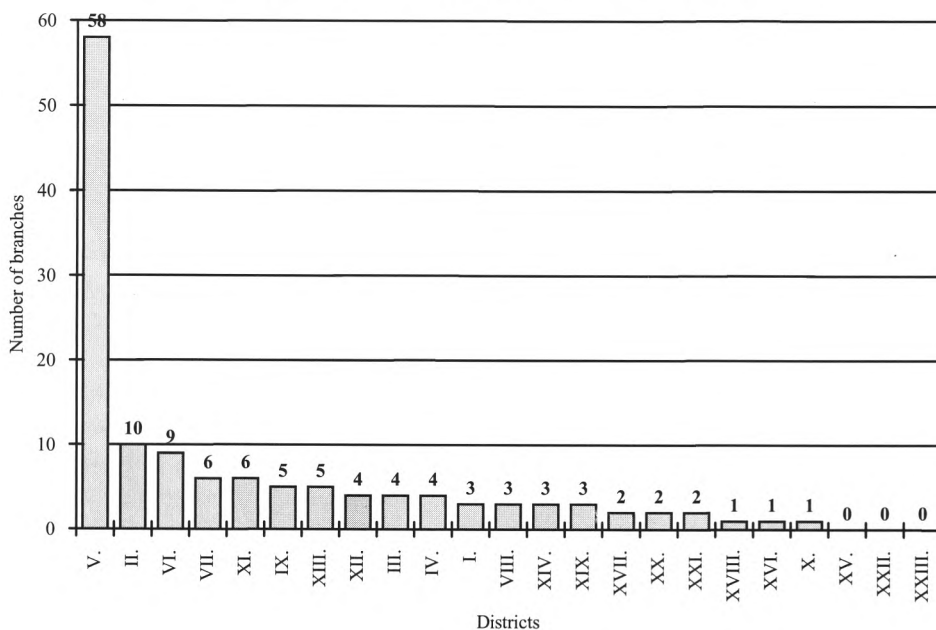
In 1990, about two thirds of financial organisations were based in the fifth District, namely in the core area of the city centre itself. By this time, the number of financial organisations increased 5.5 times in this district, which is still the most popular domicile for new banks, insurance companies and broker agencies. In 1996, of 38 banks surveyed, 22 were still based in the fifth District. Office buildings of banks are important functional-morphological elements of townscapes which express not only the prosperity of a particular bank but also determine architectural elements of development in the city-centres (*Figure 7*).

By the end of the 1990s, the financial functions of the fifth District became saturated, covered by new office buildings. A few year ago, financial organisations started to diffuse towards the surrounding inner city districts and the more developed outer districts. Banks not finding space in the fifth district opened their headquarters in the area around Kiskörút, Nagykörút and Rákóczi út (sixth, seventh, and eighth Districts) and in the upper-middle class districts of the Buda side of the city (second, twelfth and third.). The distribution of financial service centres shows the expansion of the city-centre with business functions.

The toughening competition in retail markets, the growing number of actors in local banking and a perpetual requirement of source collection and lending incite the extension of branch networks, which is one of the most expensive investments in banking. The last few years have been characterised by the rapid expansion of branch networks. While 24 banks had branches nationwide in 1997, only 19 banks had branch offices in Budapest. The per capita density of the Hungarian banking network (3,500 persons per institutions) is still more than double EU counterparts. But it is rather surprising that in Budapest, which is the exclusive business capital of Hungary, 7,758 inhabitants (15,000 inhabitants, excluding OTP from calculation) are served by one bank office, which obviously expresses the low level of

Figure 7

*Spatial distribution of branches in Budapest in 1996
(excluding the branches of OTP and mutual savings banks)*



extension of the banking network in the capital city. However, during the period between 1992 and 1996, the role of Budapest in network building strengthened. Almost all expanding banks opened 2–3 new branches, so 27% of the net network expansion occurred in the capital city (the number of institutions increased from 70 to 130, which accounted for 20% of the national banking network). Taking the OTP Bank and mutual savings bank into account, there are more than 250 banking institutions, which is less than the number of 282 banks operating in 1928, supplying only one million inhabitants in Budapest. Banks usually commence their expansion in Budapest, since the retail market and the market of small ventures are still unexploited, especially outside the inner city area. Market research and the crowding experienced mainly at inner-city offices by a few “mass banks” lead banks to extend their banking network within the capital city. According to statistics, more than the two-thirds of the population of Budapest are customers of one of the banks, which is much higher than the average in the rest of the country. Recently, 25–30% of families have acquired chequing accounts, but the ratio for Budapest is near 75%. About 85% of the population with higher education degrees is connected to banking services and this social layer accounts for 40% of the permanent inhabitants of Budapest. All these figures must give a stimulus to serve customers with a higher standard of services available in much more places, since

until the overall domination of electronic banking arrives (home banking), branch building will determine retail market for a long time.

Most of dynamically developing foreign owned banks, after gaining the most profitable shares of corporate market without network building, have recently planned to extend their branch network in Budapest in order to gain larger shares of the rapidly developing retail market. Few banks such as *Credit Lyonnais*, *ÁÉB*, *Commerzbank*, and *Citybank* operate only in the city centre without a branch network. Stronger competition for gaining larger shares in the retail market continues between traditional retail banks and newer banks with developing retail services. The only exception is OTP, which had a previously monopolistic role in the retail market, and closed 33 offices by 1996.

Among larger banks, *Postabank* have carried out a significant expansion in Budapest opening 12 branch offices and more than a 100 agencies at travel agents, at the offices of Providencia Insurance. *KH* merged with *IBUSZ Bank*, increasing their branches from 4 in 1991 to 31 offices by 1995. The number of the offices of Budapest Bank doubled; 15 branches operate in different parts of Budapest and in the outer districts as well. *Mezőbank*, which originally specialised in supplying customers in the countryside and had only one office in Budapest, increased the number of its branches with 11 new ones, due to a merger with *Agrobank*. In the retail market, OTP, *Postabank*, *KH* and *Mezőbank* operated 82% of household savings and current accounts in 1996, in which OTP accounted for 28%, although indicating a slow reduction. Due to stronger competition, banks try to gain new customers from students with relatively lower incomes (who will be potential customers in the near future), opening new branches at universities. Mutual savings banks based in provinces also started to build their branches in Budapest, opening 31 offices so far. Most of them are situated close to the city centre, organizing savings collection from the inner city.

In the middle of the 1990s, joint-venture banks started to extend their operation towards the more costly retail market, after they seized the best customers of the corporate sector. The traditional banks of the retail market have coped with competition of medium size banks by capturing more shares of market. These latter ones use two different strategies to build their branch network:

- purchase through privatization; e.g. *ABN Amro* has gained 12 branches of *MHB*
- opening new branches; e.g. *Creditanstalt (BA)* has opened 7 offices in Budapest since 1990

In the last years, seven banks started to expand their network in the capital city (*Hypo Bank*, *BNP-Dresdner*, *ING Bank*, but *Citybank* tries to withstand competition with a single Budapest office which is open 24 hours). From among the rapidly developing banks, *CIB* has only one branch in Budapest and *Unicbank* started to develop its network in provinces without opening any office in the capital city. In the near future, the expansion of the banking network in Budapest is probable.

Taking the spatial distribution of the banking network into account, we already mentioned that most of the financial institutions based in the city centre *within the fifth District and its surroundings* contribute significantly to the formation of the inner city. This centrally located area has a very high prestige due to its traffic, economic, administrative, commercial, cultural and tourist functions. This is manifested in very high real estate prices. Most of the capital intensive enterprises, joint-ventures, multinational companies, shopping and service centres, more expensive hotels and travel agencies are based in the wealthier city centre. The high density of economic and social interactions in the fifth District justify not only the larger number of headquarters of banks located here, but a higher density of branches as well. The economic elite working in the inner city, the more mobile population and large number of tourists visit this area quite frequently. In this district, as far back as 1991, 31 branches operated, and this number has doubled since that time. The branches located here account for 45% of total number of branches in Budapest. Consequently, the density of the banking network and competition are the greatest here within the capital city. On the other hand, the density of banking institutions is expected to increase in the near future due to the huge concentrated demand for banking services, which emerges in this part of the city centre. There are 570 inhabitants per institution here, which is the highest density figure for the capital city.

Regarding the *inner residential area of Budapest the sixth, seventh, eighth and ninth Districts* do not attract banking activities due to both the depreciating state of their housing estates and the residing elderly population and other groups with lower incomes. On the other hand, along main traffic routes passing through these districts there are a lot of bank offices (Rákóczi út, Nagykörút, Kiskörút), but certain areas such as Oktogon, Keleti Railway Station, Kálvin tér, Vámház körút and the Castle District, which is a major tourist destination, are still unexploited by banks. From this point of view, all places have a very good central place location, which, together with the high density of companies and institutions, provide many frequented places suitable for the expansion of banking.

In the *districts of the city centre*, the number of branches has doubled since 1991. There are 83 branch offices here, accounting for 64% of the total number of branches of Budapest (excluding OTP Bank). These figures indicate a higher level of concentration in banking, which can be seen in the index of network density above average (5,700 inhabitants per branch). This does not mean that the banking market is saturated in the inner city, but that there are other districts with larger unexploited areas.

The elite *districts of Buda-(hill) side* (second, third, twelfth and eleventh) are residential areas of entrepreneurs and the highly qualified with higher incomes, who very often use the services offered by different banks. According to statistics, 85% of this group has some connection with banks, and 70% of them have savings or chequing account. The residential function of these districts predominates, so

the density of institutions is much lower than in the city centre. However, certain banks settled their headquarters into these areas of high prestige. The so called "elite banks" (*BNP Dresdner, Hypo, CIB*) targeting the upper middle class have mainly opened their branches in the Buda hillside. Despite the huge demand for banking services, the network density here is significantly lower than that of the city centre (only 18% of the total network in Budapest), because the majority of the population works in inner-city areas and uses banking services near their workplaces and at traffic junctions. From this respect, Moszkva square, Déli Railway Station and Móricz Zsigmond körtér are the major intermediary junctions between the inner city and the residential areas of Buda hillside, providing suitable places for the expansion of banks.

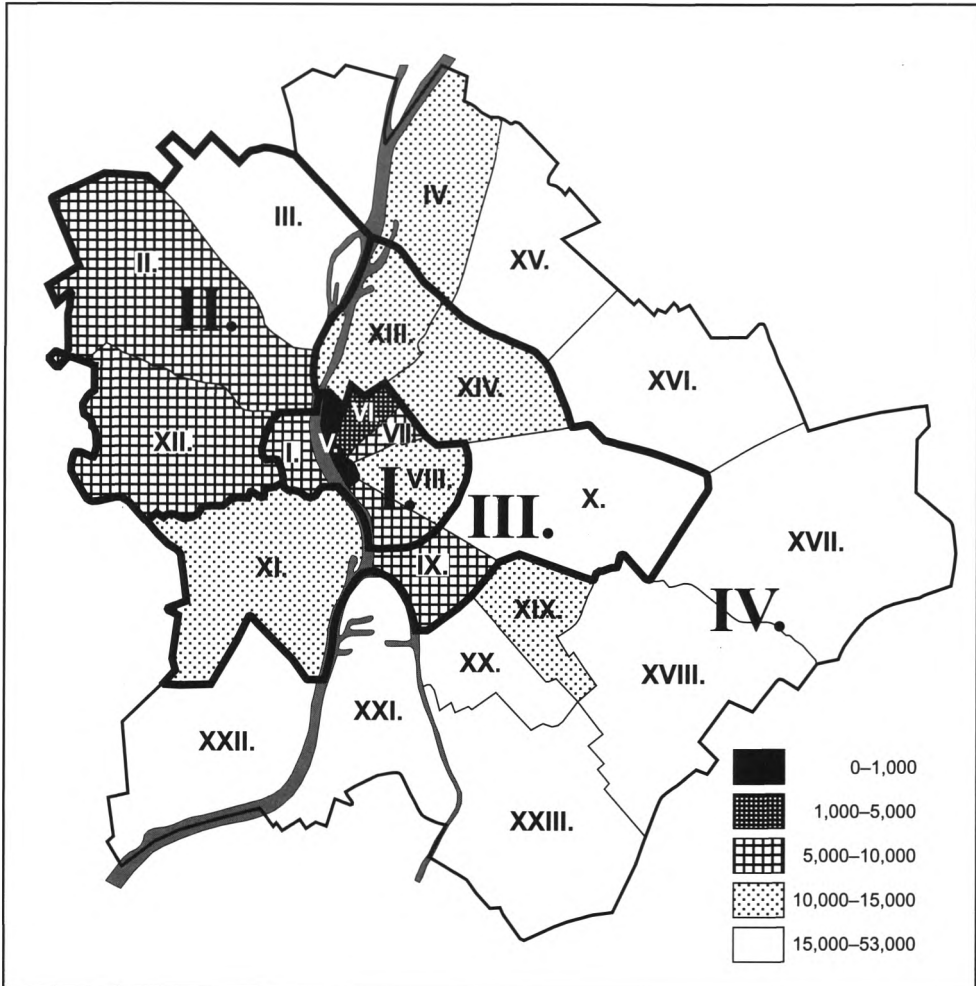
In the districts of the so-called *miscellaneous zone (fourteenth, tenth, thirteenth and the southern parts of the ninth)*, economic activities decreased significantly in the past few years. The former sites of large industrial factories that closed down are still unexploited by new enterprises. In addition, the social composition of these areas is considerably heterogenous, with the exception of recently discovered Zugló District. Only former industrial sites along major traffic routes recently started to be discovered by venture capital in order to build shopping centres (Duna Plaza) and office-blocks. The banking sector shows very little interest in this area, so only 10% of the total branch network is located here. On the other hand, certain sections of Postabank headquarters are situated in this zone.

The outer districts of Budapest are characterised by either suburban-like residential areas or housing estates and tenement houses. Lower-income groups and a smaller number of people with higher-education degrees are also very common here. The population working in the city centre or in the miscellaneous zone uses banking services there. The density of branches in the ten outer districts is three times lower than the average (23,000 inhabitants per bank office). While in 1991 there were eight districts without any branch at all (e.g. eighth,) in the other nine districts, banks opened only one office per district. But in 1996, there were no branches in the 15th, 22th and 23th districts (OTP excluded). (*Figure 8*)

In summary, there are two principal tasks on the agenda of the development of the banking network in Budapest. First, it is necessary *to expand the density of the branch network and to extend the range of branch services. Second, one must ensure the institutional connection of Budapest to international money markets.* In all probability, the density of the branch network of the city centre will increase. There is no other such energetic place as in the city where, as a consequence of the structure of the townscape, such a concentrated demand for banking services would emerge by the middle and upper-middle classes and medium-size enterprises. There are other possibilities to expand the banking network alongside the main traffic routes passing by the edge of inner city areas, which are major junctions of public transport coming from the outer suburbs, and also in centres of different districts with better social composition.

Figure 8

*Banking network density of Budapest
(number of inhabitants per office)*



Key: I – Inner district (incl. CBD and inner residential areas); II – Districts of the Buda-hillside (middle & upper middle class residential areas); III – Miscellaneous zone (housing estates, old industrial areas, tenement houses); IV – Outer districts (housing estates, suburban residential areas, greenfield industries & shopping centres)

Recently, large cities and different regions rather than simply different nations are in competition with each other in the field of the global world economy in order to gain investment capital, and connecting to the sources of information. The prototype of the future city will be not an industrial one, not even a place of ex-

change of services, but will be the city of money and knowledge. Budapest nowadays is quite far away from the role of an internationally economically controlling position in the world economy, but it is plain that in the East Central European region there is a lack of regional economic managing, financial, communication, service and financial centres. As a consequence of rapid restructuring and the modernisation of Budapest's economy, the capital city has become the most important innovation-centre of the region, playing an important bridge-head in foreign capital inflow and investment within Central and East European countries.

The question is whether Budapest will become a real financial centres. Budapest has a traditional metropolitan townscape, adequate infrastructural background and stable economic environment, which are quite important attractive forces for the investment of multinational companies. Today, Budapest is the only capital city in the region that has a direct highway connection with EU countries, a modern international airport and the best infrastructure for telecommunication. Lots of multinational companies (Pepsi Co., Kodak, Nestle, Xerox, Shell) built regional bridgeheads facing Eastern Europe from Budapest. Vienna, the traditional competitor of Budapest, slowly started to lose its advantageous situation within the region due to the enormous growth of business functions in Budapest. (A kind of division of labour emerged between the two cities by the end of the 19th century: Vienna became the administrative and Budapest the commercial centre of the Monarchy.)²⁷

On the other hand, there are certain limits to the growth of such international financial functions in Budapest since telematically based concentration processes, which are characteristic of global money markets, could overcompensate the advantages of geographical proximity. Multinational companies most likely to utilise only the simpler financial services in the Central European region, and the services requiring more resources, will utilise in traditional Western European and overseas financial centres in the future, too. In addition, the smaller size of the national economy, the weakness of domestic capital (the activity of the black economy), the low level of economic interactions within the regions, the small activity of banking system abroad and the consequently smaller size of banks, Budapest is not suitable for the role of regional financial centre. Foreign banks that opened their subsidiary banks in Hungary established branches and subsidiaries in other Central European countries as well. Consequently, foreign banks concentrate more on covering each national market rather than on establishing a single regional banking centre, as, for instance, in Budapest.²⁸

According to some banking experts, Budapest could successfully apply only for the position of a subordinate *off-shore like regional financial centre*. Subject to these conditions, services which require smaller amounts of capital and highly qualified employees will come into prominence. To carry out all these, it is necessary to strengthen the banking system with the business-like intervention of the state, but the exact date of integration into the EU may influence the development of the Hungarian banking system and the international role of Budapest.

7 The regional structure of the Hungarian banking network

Regarding the diffusion of the banking network, it is very important to survey the geographical location and the different hierarchical types of settlement where banks are located.

At the birth of the two-tier banking system, the network was characterised by a certain spatial balance due to evenly allocated branches of OTP Bank. The Bank was located in more than 270 settlements, spanning every county. After the founding of new commercial banks, significant spatial asymmetry occurred within the country. This was especially so because MHB did not have representation in 10 counties and KH was also absent in a few counties. KH dominated in the Alföld region (the Great Hungarian Plain), MHB in North-Transdanubia, and BB in the Budapest area.

The spatial appearance and regional diffusion of the new branches reflects recent economic processes. There is a big gap between the two sides of the country. In most of Transdanubian counties, unemployment rates are around average or lower than the national average. After Budapest, the majority of economic associations, including joint-ventures and accumulated capital, are in Transdanubia, especially in its north-western part. All these are underpinned by indices of corporations, associations, household savings and figures of indebtedness for the population. The structure of the diffusion of the banking network followed this spatial pattern by the beginning of the 1990s. Because of the network configuration of the National Bank of Hungary at the early years of two-tier banking, the Alföld region was dominated by a network of successor banks having 5–6 branches each. In Transdanubia, 4–5 banks started to operate. The greatest numbers were in Baranya and Somogy counties, while the fewest were in Zala county (3). There were bigger differences among the counties of Northern Hungary: Borsod-Abaúj-Zemplén county had 7, while in Nógrád county only had 2 branches.

At the beginning of the 1990s, banks were interested mainly in branch expansion into Transdanubia. This was understandable in part because the largest unexploited territories of commercial banks were situated in the western parts of Hungary. The significant differences among the large regions have practically evened up by 1990, except for Northern Hungary. The disadvantage of the Transdanubian regions thereby came to an end. From the mid 1990s, after the saturation of Transdanubia, the main targets of branch network expansion are the greater cities of East and South Hungary (*Table 6*).²⁹

There were significant differences behind the well-balanced large regions concerning the network density within regions and counties. In some counties, the number of new branches that started to operate exceeded 10 offices between 1987 and 1990 (Győr-Sopron, Baranya, Hajdú-Bihar), while in other places only a few

Table 6

Expansion of the Hungarian banking network (1987–1995)

Counties	January 1987			March 1990		January 1995			
	(1)	(2)	(3)	(2)	(3)	(1)	(2)	(3)	(4)
Győr-Moson-Sopron	4	3.7	109.209	6.9	22.991	47	8.0	9.294	7.046
Vas	4	3.7	69.296	5.1	19.799	22	3.7	12.599	7.919
Veszprém	4	3.7	96.486	4.0	35.086	29	4.9	13.308	8.975
Zala	3	2.8	103.844	4.7	23.964	23	3.9	13.545	9.735
Fejér	4	3.7	107.835	2.6	61.620	22	3.7	19.606	13.071
Komárom-Esztergom	4	3.7	80.149	3.3	35.622	15	2.5	21.373	11.450
Pest	6	5.6	164.619	4.7	75.978	28	4.7	35.276	16.741
Baranya	5	4.6	84.719	6.9	22.294	30	5.1	14.120	9.013
Somogy	5	4.6	69.973	5.5	23.324	28	4.7	12.495	7.775
Tolna	4	3.7	65.258	3.3	29.003	18	3.1	14.502	9.001
Bács-Kiskun	6	5.6	93.889	5.1	40.238	33	5.6	17.071	8.942
Békés	5	4.6	84.125	5.5	28.042	25	4.2	16.825	8.584
Csongrád	6	5.6	73.716	5.8	27.643	26	4.4	17.011	10.531
Hajdú-Bihar	5	4.6	113.546	6.6	31.541	21	3.6	27.035	14.193
Jász-Nagykun-Szolnok	6	5.6	73.425	4.0	40.050	26	4.4	16.944	9.178
Szabolcs-Szatmár-Bereg	6	5.6	99.883	4.0	54.482	19	3.2	31.542	18.161
Borsod-Abaúj-Zemplén	7	6.5	112.569	4.4	65.665	36	6.1	21.888	13.586
Heves	3	2.8	113.279	4.0	30.894	19	3.2	17.886	10.962
Nógrád	2	1.9	115.965	2.6	33.133	11	1.9	21.084	11.044
Counties of the Danube region**	40	30.6	100.811		41.106			18.748	10.752
Counties	89	82.4	96.396	88.7	35.305	477	80.8	17.986	10.751
Budapest	19	17.6	101.671	11.3	62.314	130	22.0	14.860	7.789
Hungary	108	100.0	97.324	100.0	38.361	590	100.0	17.815	10.049

* Excepting the network of NBH, OTP, Realbank and mutual savings banks.

** Győr-Moson-Sopron, Fejér, Komárom-Esztergom, Pest, Baranya, Tolna, Bács-Kiskun counties.

(1) Number of branches of banks and specialised banks

(2) Spatial distribution of branches

(3) Network density: population decline per branch

(4) Network density with branches of OTP

Sources: Hungarian Almanach of Financial and Capital Market, 1990, 1994–1995.

branches opened (Fejér, Komárom-Esztergom, Tolna). In some counties, they were exclusively established in (Borsod, Fejér, Szabolcs-Szatmár). In certain other counties, besides county seats, in 2–3 other towns 1–2 new branches were opened (Pest, Győr-Moson-Sopron, Hajdú-Bihar, Békés, Zala,). An extreme exception was Esztergom-Komárom county, where no branch was opened between 1987–1990 in the county seat. In Tatabánya economic depression was affected by its heavy industrial history (Figure 9).

At the beginning of the 1990s, differences were more dominant among counties and 9–19 new branches started to operate in either the Transdanubian or Alföld regions. Few counties in the so called *Danubian region* have a distinguished status

concerning the extension of their banking network: in Győr-Sopron-Moson (28 new branches) Bács-Kiskun (19 new branches), in Borsod-Abaúj-Zemplén (24 branches) and in Pest and Fejér counties with 15 branches each. In these latter counties, they started to build new branches alongside the lower settlement hierarchy towards smaller towns (Dunaújváros, Baja, Vác, Csorna, Mohács) and villages (Piliscsaba, Pilisvörösvár, Kiskunlacháza), connecting them to the circulation of banking (*Figure 10*).

Figure 9

Distribution of the banking network among the regions of Hungary, 1996

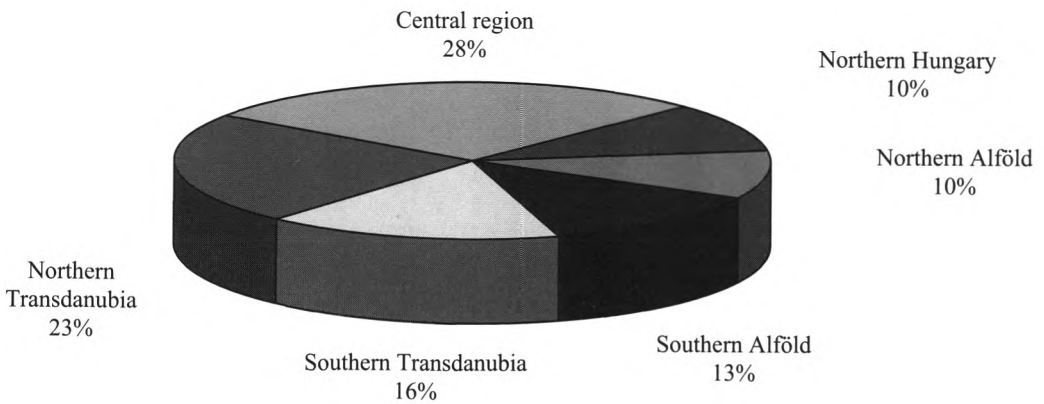
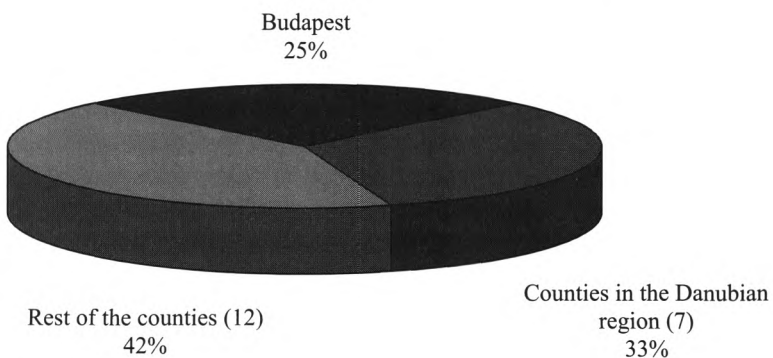


Figure 10

Regional distribution of the banking network in Hungary, 1997



During the short period between 1995 and 1997, there was no increase in the branches of Northwest Transdanubia. In some counties, such as Komárom-Esztergom, Bács-Kiskun, the number of bank offices decreased by 1–2 units when Iparbank and Agrobank ceased to operate. Other banking institutions, such as the State Treasury, representative branches of NBH, regional headquarters, single branches, representatives or cash offices, correct the spatial differences deriving from the number of banks or branches. Regional centres (Győr, Pécs) and greater county seats (Kecskemét, Székesfehérvár) usually have the complete circle of these institutions. Mutual savings banks also started to increase the number of their branches in cities, launching their activities towards urban money markets. For instance, there are 8 mutual savings banks operating 14 offices in Pécs, headquartered outside of the city.

The total number of banking institutions is 1,319 and together with the 1,800 mutual savings banks there are about 3,100 institutions. Taking *figures of network density* into account, 3,200 inhabitants are served by one office, which is still much lower density than in the Western European counterparts where a bank office can serve 1,400–1,500 inhabitants. In spite of the boom in the founding of new branches mainly by foreign and joint-venture banks, there are still not enough branches, but the progress made by these banks, especially since 1996, is spectacular. In 1997, 24 banks had a nationwide branch network and an additional 7 banks started to build their networks in Budapest (*Figure 11*).³⁰

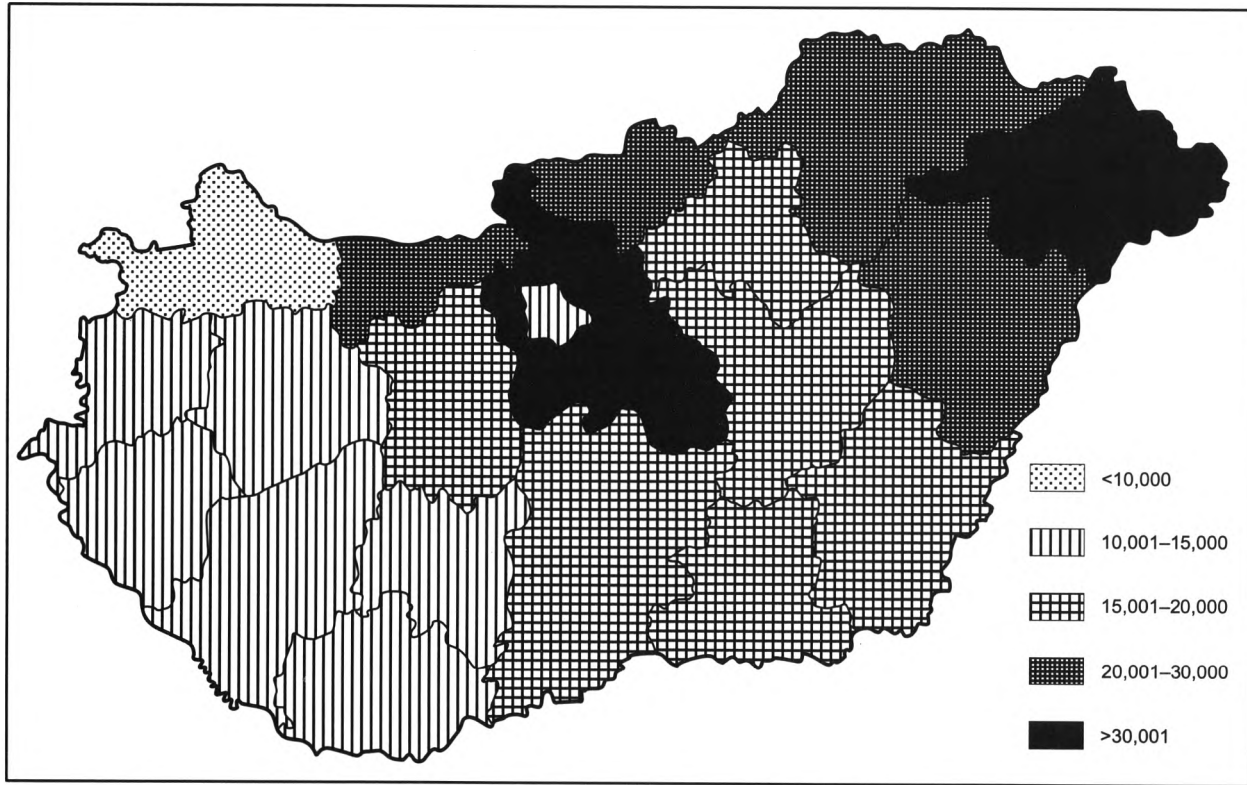
Concerning *figures for network density*, 100,000 inhabitants were served by one branch office in 1987.³¹ After the boom period, this ratio decreased by two thirds and came down to one sixth (including OTP offices) by 1997. Recently, in the cases of most counties, the shares of the banking network have not differed significantly from the distribution of the population, which can be regarded as a progress towards levelling. If surveys include OTP, differences are much smaller.

Surveying the banking network according to network density figures, we can find few counties with a lower density of banks. Szabolcs-Szatmár-Bereg and Pest counties are the most under-supplied areas, accounting for half of the national average in 1995. In the case of the former, its economic and geographical situation, entrepreneurial activity, low level of foreign capital inflow, etc. could be the explanation for the lack interest of banks in settling there. In the case of Pest county, the capital city causes repercussions by influencing the building of the banking network. Compared to the population, Hajdú-Bihar, Borsod-Abaúj-Zemplén, Komárom-Esztergom, Nógrád and Fejér counties are also badly supplied by banking services. These counties could be the main target areas of the expansion of banks in the near future (*Figure 11*).

Nowadays, the density of banking network having been evened up, there are smaller divergences from the average. Counties of the Hungarian Danube region are around the average of the counties,³² with the greatest differences between Győr-Moson-Sopron and Komárom-Esztergom. Figures of this regions from 1987

Figure 11

*Density of the Hungarian banking network in 1995
(number of inhabitants per office)*



till 1990 indicated a spatial disadvantage which this region (with industrially less frequented areas during the old regime) experienced at the start of the commercial banking system. By 1996, as a consequence of the concentrated development in financial services, banking came into this region and made up for the previous underdevelopment in financial services, catching up with the average of the counties. The fastest rate in the extension of the banking network took place in Győr-Moson-Sopron county. Between 1987 and 1995, 43 commercial and specialised banking offices were opened there. Within the county, branches strongly concentrated into the seat of the county, the city of Győr and into Sopron that is a major commercial centre of cross border trade and services. Baranya and Bács-Kiskun have also experienced a rapid network building. In the former, the dominance of the city of Pécs is the main feature, while in the case of the latter the dominance of Kecskemét is partly balanced by the medium-size towns of the county (Baja, Kiskunfélegyháza).

According to the indices of network density, the banking network of *Pest county* is one of the least dense ones, excluding the network of OTP Bank. Compared to the number of settlements with larger populations, there are relatively fewer bank offices. The branch network of the OTP operated a relatively dense network with 30 units at the end of the 1980s. The branch network of the other banks exceeded the number of OTP units only in 1997. The main reason for this lower supply of banking services is that this county has not got an official centre and Budapest is situated in its heartland, with the result that most of the enterprises and multinational companies operate within the agglomeration of Budapest and utilise banking services in the capital city. On the other hand, the central location of Pest county and the increasing economic role of the settlements both within the agglomeration and in the national economy (strong entrepreneurial activity, high rate of foreign capital investment, higher income of the average households, etc.) require more and more branches.

The example of Dunakeszi, with its population of 30,000, represents an extreme, as it has only one OTP branch. Gödöllő also has only 2 branches, without OTP. Very few branches operate compared to city size in Cegléd, Monor, Nagykőrös, Százhalombatta and Szigetszentmiklós. There are more branches in Érd and Vác, due to their more favourable geographical location and agglomerative functions. Banks are more interested in the smaller town of Szentendre, with 7 branches operating, where the relatively high number of banks is due to its special tourist function.

Compared to the size of population, Komárom-Esztergom and Fejér counties have a lower density of banks than average. The latter experienced an economic crisis, which affected its processing industry and minimised the interest in business services within the county. Meanwhile, due to the successful change in industrial structure, this area became one of the most successful regions, where foreign capital inflow and entrepreneurial activity increasingly have stimulated banking activity in

the past few years, especially in the city of Székesfehérvár. In Komárom-Esztergom, the structural crisis within the previously existing mining and heavy industries was protracted. Thus a lower level of business services settled down in this county. Summing up the situation of the Danubian counties, besides the dominance of Győr-Sopron-Moson Baranya and Bács-Kiskun in banking services, the lower section of the region operates the most dense banking network, while Komárom-Esztergom, Pest and Fejér still have a relatively lower density of branches.

Surveying the distribution of banking network according to *settlement types* is more expedient than to investigate the levels of counties, because banking institutions have more links to cities and towns; therefore, capital flow is an important indicator of different urban processes. Big banks were founded in 1987–88 and started to extend their network alongside urban hierarchy, at first through regional centres and later through smaller cities. Since the beginning of the 1990s, the number of branches exceeded the number of larger cities. Consequently these banks turned their interest towards the smaller settlements. For those banks that commenced to build networks at least 4–6 years ago the proportion of branches situated in larger cities (including Budapest) nowadays is only around 50%.

The first branches in villages were also opened. Selected villages usually have some special function. Piliscsaba is one example, where IEB operates an office located in the agglomeration of Budapest and seat of the Catholic University. The German owned Volksbank has been operating a branch in Pilisvörösvár, a village of German predominance. Banks settled down at the border station of Hegyeshalom and in Herend, which has important tourism functions. Despite the above mentioned, the number of branches in villages is still very low.

Those banks that have just started to build their network – most of them foreign owned – are locating themselves solely into the regional centres. As a consequence of this, certain larger cities (Pécs, Győr, Szeged, Székesfehérvár), though there is no regional bank in Hungary, have started to play a significant role in the operation of financial services, where different organisations of the financial sector (banks, insurance companies, consulting) mutually attract each other. This also induces a reinforcement of competition in the local-regional market (*Table 7*).

Banking networks were rather more polarised according to both hierarchy and region at the beginning of the 1990s compared to the present. More developed networks existed in county seats and in the cities in the western parts of Hungary (which were targets of foreign companies and banks). In the North Hungarian and North Alföld regions, the banking network is more underdeveloped, like in Pest county, where the central role of Budapest counterbalances its disadvantage. Consequently, besides Budapest, Győr, Pécs, Székesfehérvár (and the catching up of Szeged, Debrecen) are considered the largest provincial banking centres. As regards the number of branches, 17 banks operate 23 branches in Győr, but together with OTP and representatives of Raiffeisen Landesbank of Burgenland, the total

number of branches were 43. In the case of Győr, its favourable geographical location, developing economic environment, and touristically frequented urban milieu provide promising opportunities for banks opening branches there (*Figure 12*).³³

Table 7

Banking services in Hungarian cities, 1996

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Hungary	10,212,300	255,043	305	3,216	630	3,175	16,210	79	405	249.7
Budapest	1,906,798	108,865	64	253	125	7,537	15,254	430	871	570.9
Countryside	8,305,502	146,178	278	2,548	505	3,260	16,447	57	289	176.0
Cities	2,082,932	61,951	...	436	274	4,777	7,602	142	226	297.4
Cities of the Danubian countries*	736,898	22,225	127	199	305	4,107	8,215	118	230	296
Debrecen	214,228	5,481	20	29	16	7,387	13,389	189	343	255.8
<i>Dunaújváros</i>	57,970	1,508	5	8	4	7,246	14,493	189	377	260.1
Hódmezővásárhely	50,631	4,374	5	8	4	6,329	12,658	547	1,094	863.9
Miskolc	193,905	4,280	19	31	18	6,255	10,773	138	238	220.7
<i>Tatabánya</i>	75,258	1,679	9	13	5	5,789	15,052	129	336	223.1
Salgótarján	48,488	1,060	8	9	6	5,388	8,081	118	177	218.6
Szolnok	81,336	2,213	10	16	10	5,084	8,134	138	221	272.1
Nagykanizsa	55,624	875	6	12	6	4,635	9,271	73	146	157.3
Nyíregyháza	119,317	3,650	16	26	14	4,589	8,523	140	261	305.9
<i>Székesfehérvár</i>	108,543	3,625	17	25	17	4,342	6,385	145	213	334.0
Kaposvár	70,529	2,135	11	17	10	4,149	7,053	126	214	302.7
Szombathely	84,745	1,996	16	22	12	3,852	7,062	91	166	235.5
Szeged	173,820	7,267	21	46	20	3,779	8,691	158	363	418.1
<i>Pécs</i>	164,872	5,595	25	45	23	3,664	7,168	124	243	339.4
<i>Kecskemét</i>	108,345	3,413	19	30	15	3,612	7,223	114	228	315.0
Zalaegerszeg	62,077	1,663	13	19	14	3,267	4,434	88	119	267.9
<i>Győr</i>	130,244	3,725	26	43	23	3,029	5,663	87	162	286.0
Eger	60,445	1,345	15	20	10	3,022	6,045	67	135	222.5
Békéscsaba	67,621	1,638	13	23	13	2,940	5,202	71	126	242.2
<i>Sopron</i>	54,311	1,338	12	19	9	2,858	6,035	70	149	246.4
Veszprém	63,553	1,749	14	25	15	2,542	4,237	70	117	275.2
<i>Székszárd</i>	37,070	1,342	12	16	10	2,317	3,707	84	134	362.0

* Dunaújváros, Tatabánya, Székesfehérvár, Pécs, Kecskemét, Győr, Sopron, Szekszárd

(1) Population as of the 1st of January, 1996.

(2) Number of enterprises with legal and non-legal entity

(3) Number of banks

(4) Number of all institutions of banking network

(5) Number of all institutions of banking network counted without OTP Bank and mutual savings banks

(6) Network density 1: population decline per branch

(7) Network density 2: population decline per branch without the branches of OTP Bank and mutual savings banks

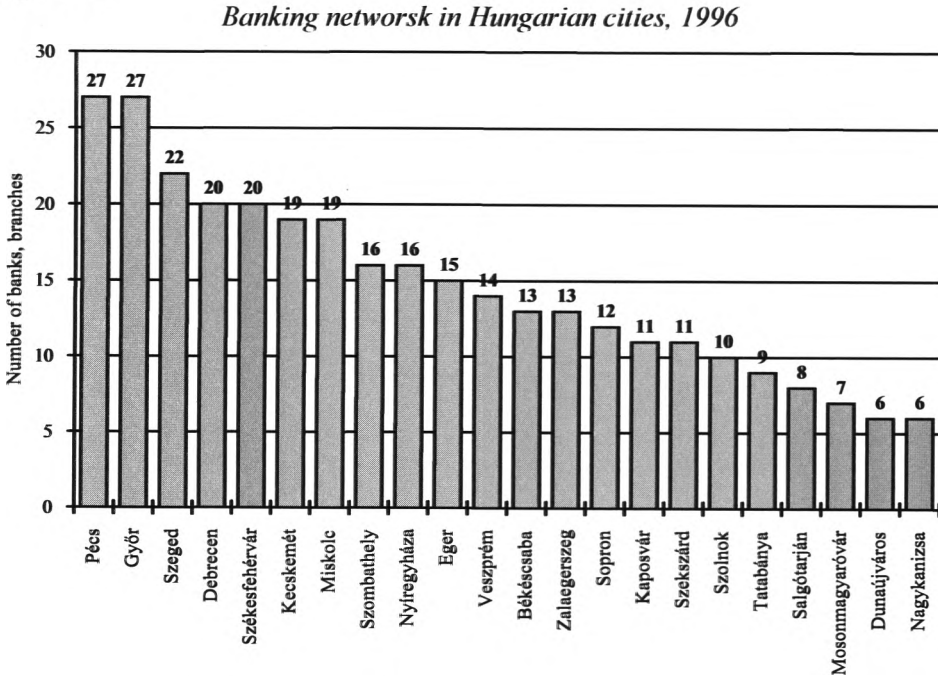
(8) Network density 3: enterprise decline per branch

(9) Network density 4: enterprise decline per branch without the branches of OTP Bank and mutual savings banks

(10) Entrepreneurial activity: enterprise decline per population of 10,000

Sources: Statistical Yearbook 1994., Hungarian Almanac of Financial and Capital Markets 1995–1996.

Figure 12



In Pécs, 17 banks appeared with 25 branches but the number of branches accounted for 46 with the offices of OTP (6) and mutual savings banks (17). The concentration of services is higher here because of the central position of Pécs extending over South Transdanubia. The share of employees in the service sector doubled between 1970 and 1990, which means that the proportion of the tertiary sector (including business services) accounted for 15%. There are several reasons why banks open branches in Pécs. Not only its economic environment, but the highly qualified population with a multicultural background and the historical inner-city areas with tourism interests provide an attractive urban population for banks.

The next group of cities attracting banks are other regional centres and cities with populations of over 100,000 (except Nyíregyháza). Szeged (14 banks with 21 branches), Miskolc (13 banks, 18 branches), Debrecen (13 banks, 16 branches), Kecskemét (13 banks, 15 branches) and Székesfehérvár (13 banks, 17 branches), also belong to this group. These latter cities are among the more successful, situated not far from Budapest in the zone of most business innovation. Their multiple urban functions, administrative positions and demands for their rapidly developing local economies provide a great attractive force towards high standard business services. As a consequence of this, there are more than 30 branches, including savings banks, in both cities.

In the third group of cities 8–11 banks operate usually 9–15 branches. Veszprém (11 banks, 15 branches), Nyíregyháza (11 banks, 14 branches), Szombathely (11 banks, 12 branches) Zalaegerszeg (10 banks, 14 branches), Békéscsaba (9 banks, 13 branches), Szolnok and Eger (9 banks, 10 branches), Kaposvár (8 banks, 10 branches), Szekszárd (9 banks, 10 branches), and finally Sopron (12 banks, 12 branches) belong to this group of cities.

Sopron has a concentration of many administrative functions, like Győr, and the position of Sopron as regards banking services is more favourable due to its economic environment, although it is not the seat of Győr-Moson-Sopron county. Many financial and other services are situated in Sopron, induced by the demand of a prosperous local economy and its special tourist attraction. The general characteristics of the local economy are favourable. The number of small enterprises, volume of income taxes, the higher level of household incomes, the extremely high prices of real estate, the greater density and the higher price level of commercial and other services will together provide great opportunities for financial services for a long time.

The banking sector does not show much interest in certain other bigger cities. Salgótarján (6 banks, 6 branches), Tatabánya (6 banks, 5 branches), Nagykanizsa (4 banks, 6 branches), Dunaújváros (7 banks, 5 branches) and Hódmezővásárhely (4 banks, 4 branches) belong to this group. In a few smaller towns, the number of banks reached the level of branch extension of the above mentioned group. For instance, in Mosonmagyaróvár, which is situated alongside the innovational axis between Budapest and Vienna (6 banks) and in the Danubian region in Baja, Kalocsa and in Vác, 4-4 banks operate.

Dunaújváros, the former heavy industrial centre, may become an innovational core along the River Danube in the near future. The city, because of its inherited one-sided industrial structure, went through an economic crisis at the beginning of the 1990s. Since that time, due to the economic transformation, technological innovation and capital investment, the local economy became stabilised and diversified. As a consequence of this, unemployment rates decreased rapidly. As regards export yields, Dunaújváros ranks among the best ones. Seven banks settled down there, considering the city in light of its size and the relatively younger age structure of population as a potential market for the future. Recently, corporate banking has been more prosperous than retail banking, as local companies are clients of branches of ABN Amro and Budapest Bank. But compared to the density of enterprises, banking networks are still underdeveloped.

Tatabánya is underrepresented in the banking network relative to its population size and administrative functions. As a traditional mining city, it has been coping with structural transformation caused by declining mining and its supplementary services, followed by the effects of a high rate of unemployment. The major industrial areas are situated along the River Danube so that economic and tourism po-

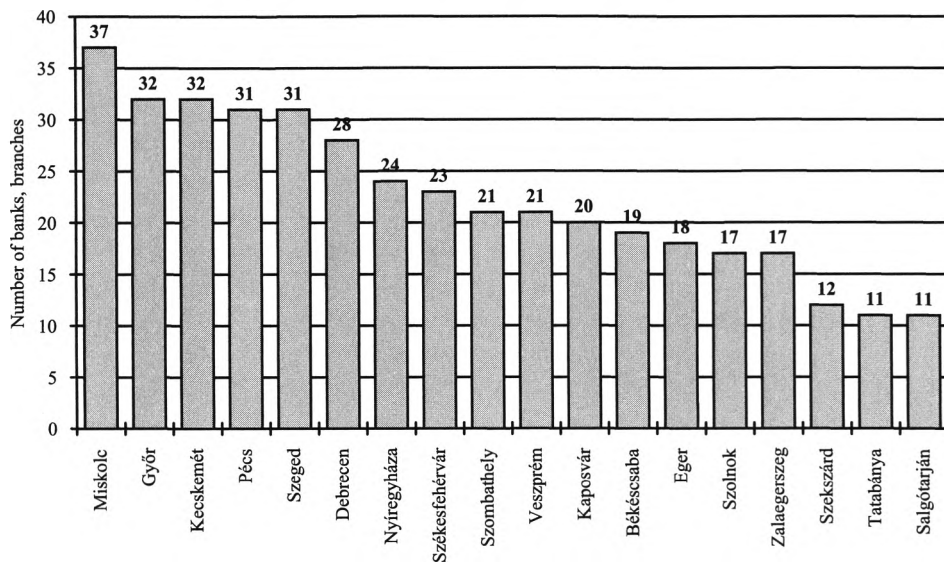
tentials and household incomes are more moderate in the environs of the city. The economic situation did not attract capital flow into the city, so banks did not open any branch at all until 1990. Even since that time only 4 new branches have been opened. However, the entrepreneurial and investment activity, due to the favourable geographical location of Tatabánya (motorways and railways functioning as main traffic routes towards Vienna and Budapest) increased in the past few years. New commercial and industrial investments took place in the new industrial parks, which contributed to the structural transformation of the local economy, showing some indicators of economic prosperity. The standard of business and financial services is still low, and only 6 banks operate in the city where the development of banking is potentially reasonable. If we involve mutual savings banks into our survey, Szeged catches up with Pécs and Győr. In these three cities, the number of branches exceeded 40. After them come Miskolc, Kecskemét and Debrecen, with 30–32 branches each.

In conclusion, it can be seen that *different banks are situated on the different level of network construction* in the recent period of development. Shares of larger cities from the banking network intensively increased from 35–40% to about 50% (with Budapest at 66%) between 1987 and the early 1990s. This is because at least a dozen new banks entered into the market and started network building. In the following period, the bankruptcies of certain banks and the revised policy of network building with closing offices affected mainly these larger cities as the major beneficiaries of the first period of the banking expansion boom. In spite of several newly opened branches, the shares of larger cities within the banking network fell to 43% (or 63%, including Budapest).

Recently, a shift has taken place in the processes of levelling in the expansion of the banking network in favour of the Eastern parts of the country. The number of branches in the cities of the Eastern and the Southern parts of Hungary have increased more rapidly than in the Western counterparts, which had been previously the most saturated parts of the country according to the number of branches. However, Miskolc gained a leading position in the number of branches (37), followed by Győr and Kecskemét by 1998, each having 32 branch offices. They are succeeded by Pécs and Szeged (31–31), and finally by Debrecen (28) (*Figure 13*).

Taking the expansion of the banking network into account, some experts think that the spread of electronic home banking will counterbalance the traditional way of branch office building. According to others, and I share their opinion, there is a longer future for the traditional expansion of branch networks, since customers are much more devoted to personal administration and rely more on branch offices. In addition, about 40% of population does not have any contact with banking, yet.

Figure 13

Banking networks in Hungarian county seats, 1998

8 Conclusion

Surveying the spatial characteristics of the Hungarian banking system, it can be stated that economic changes are very much dependent on financial services, which reflect the processes of economic transformation. Financial services became the key sector of business services differentiated by spatial and regional development characteristics as well. The overall concentration of financial services into Budapest is a direct result of the general concentration of business sectors into metropolitan centres. At the beginning of the network building expansion of branches, there followed a pattern of spatial economic division as banks mainly opened branches in the Western part of the country. Since the mid-1990s, due to the process of levelling, banks have started their expansion towards the Eastern and Southern parts of the country according to urban hierarchy.

Evaluating the competitiveness of the Hungarian banking system, it can be said that the banking sector has become stronger since 1994 and has become a more profit-yielding sector. However, progress in banking is significant only compared to the previous state of the banking system and the quality of the sector by international standards is still very weak. The proportion of outstanding claims, despite a significant decrease, is still higher than in any EU country.

The role of the Hungarian banking system in the economy lags far behind more developed countries. The ratio of balanced-sheet footings to GDP is 72%, which is a very low percentage, but it indicates an enormous opportunity for progress in the banking market. Despite the general recovery of banking, the sector has remained polarised. In 1995, 70% of profit after taxes was produced by banks with foreign ownership that accounted for one quarter of the market. Their profitability and efficiency was twice higher than at banks of Hungarian ownership. Following the crisis, bankruptcies and consolidation, the redistribution of the banking market commenced and banks with a background of foreign ownership have gained stronger positions. Stiffened competition decreased the interest margin and raised the value of non-interest like incomes, such as charges and premiums. Banks with foreign ownership played an important role in the development of banking, increasing the standards of banking services. In the beginning, green investments strengthened the competition in the corporate market, but in the past few years banks in retail banking also became more active.

Summarising the experiences of Hungarian banking, it can be said that the openness of this sector compared to others contributed more to the modernisation and competitiveness of the overall banking system. Until now, the activity of foreign banks depends on their subsidiary companies, which have to be established before starting their operation. In the last instance, the question becomes whether the national banking system is ready to be fully liberalised and able to withstand increasing competition within the European Union.

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THE DEVELOPMENT OF BUSINESS SERVICES AND THEIR ROLE IN REGIONAL DEVELOPMENT IN HUNGARY

ZOLTÁN RAFFAY

As a consequence of the change of development paradigm which took place in the advanced market economies in the last two decades, the tertiary sector took over both in employment and in GDP production. However, the structural transition of the economy was spatially uneven: agrarian regions and traditional, Fordist type industrial areas are lagging behind in this tertiarisation process. The differences among the economic performance of the individual regions is more and more defined by the weight and composition of the tertiary sector.

Regional economic development formerly only considered manufacturing industry as a sector to be promoted. In the more advanced market economies of Western Europe, however, it is more and more commonly realised that services (especially producer services) also play a crucial role in regional development. Financial and business services are particularly important in this sense (like management consultancy, market research etc.), for various reasons:

- first, in many cases they sell their services outside their regions, thus contributing to the regions' export revenues, having a multiplier effect on other economic activities;
- second, the services supplied for the local companies influence the economic competitiveness of the buyer companies to an ever greater extent, influencing their export capacities, too;
- third, presently business services are where the largest number of workers are employed. At the same time, they are strongly concentrated in metropolitan areas where agglomeration advantages can be utilised. The positions of the less developed regions, however, which are not able to attract developed business services and a skilled labour force, can further worsen compared to the core regions. It is extremely important, then, to create highly qualified and well paid jobs outside metropolitan regions, too.

Regional policies in Western Europe and the cohesion programmes of the European Union pay special attention to the development of services. A complex set of tools are used to influence the territorial structure of the tertiary sector. The Western European literature on economics and regional policy gives us compre-

hensive and systematic information about the role of the tertiary sector in economic growth. They also provide for the classification of service activities, the development of their inner structure and their impacts on regional development.

In Central Eastern Europe services, including producer services, were given a very low priority under the past political system. In the future, however, the tertiary sector is expected to develop rapidly. For the future development of Hungary, considering the transitions which took place in the European market economies, and also the trends and direction of Hungarian restructuring, special attention should be paid to the tertiary sector survey. The experiences from the results of regional development should be analysed, together with the potential effects of the new processes. The main directions of a conscious development of the tertiary sector has to be defined because the decentralised regional development of the developed services may be a fundamental element for the competitiveness of Hungarian regions in the future.

1 Theoretical background

For a long while, some of the social sciences, together with the media and politicians, believed that “production” only meant the manufacturing of industrial goods and agricultural products. Such an approach to the economy is slowly replaced in the western societies by a notion which better reflects present realities, in which services (or, in other words, the tertiary sector) share some two thirds of total production and employment – and this share is still increasing.

According to the classical view, services do not play a crucial role in the economy. They do not produce any new value added, but use the values produced by other sectors and they are thereby parasitic. From the 1930s, however, it became evident that as societies grew richer, people spent more money on services. The major part of new jobs was created in the tertiary sector, not in the traditional manufacturing sector. In the early 1970s, with the emergence of welfare societies, *Bell*, already spoke about the “coming of the post-industrial society”, where the largest sector of the economy is health, recreation, educational and cultural services (*Bell, D.1973*).

Bell’s ideas were not widely accepted. The opponents (*Baumol, Skolka and Gershuny*) argued that the increase in productivity in the service sector could not reach the increase in the productivity of other sectors, because the producers and consumers of the services had to be in each other’s proximity. Baumol and Skolka even considered harmful the increasing phenomenon of de-industrialisation in western societies. In their opinion the spreading of low-productivity service activities would slow down, and in turn stop economic growth. In the formal economy, services can only be produced at a high price, due to low productivity, so people would choose to produce services themselves, within the households (as Skolka

and Gershuny saw it). Thus it is more appropriate to talk about a “self-service society” than a service society (*Illeris, S. 1989*).

Studies on services were mainly restricted to the survey of services offered to the final consumers, households (as this is the largest share of the total of the services produced). From the late 1980s, however, more and more attention has been paid to producer services, i.e. those “intermediate” services that are used both in manufacturing and in the production of consumer services. In western societies, producer services presently have growth rates higher than any other sector. As manufacturing firms abandoned Fordist production, the making of standardised goods, and took over a more tailor-made, flexible production that could satisfy the rapidly changing demand of different market segments, the significance to regional development, education, training, management consultancy, design and marketing activities necessarily and dramatically increased. In post-fordist societies, producer services become a key sector of the economy.

2 Definition, characteristics and classification of services

In the *Thesaurus of the Hungarian Language*, the following definition stands for the word “service”:

“*Service*: ... 2. An economic activity that satisfies the demands of the population but does not create a new product” (*Thesaurus of Hungarian Language, 1982*).

Several Hungarian thesauri of economics or other fields define services as regular societal activities which do not create new material goods, but restore or increase their value, directly or indirectly alleviating their production and consumption. Also, they stress that the process of the activity and the consumption of its product coincide in space and time. (In the sectoral breakdown of the services, however, their views differ in many places.)

The English and French, the word “service” comes from the Latin “servus = slave”. *Illeris* gives four meanings of the word:

- 1) in the broadest sense, service means “help, benefit, advantage, use”;
- 2) a service may often mean a product of an immaterial nature;
- 3) a service may be the result of work, of a service activity; and finally
- 4) a service may be a tool which helps to create a service product (*Illeris, S. 1989*).

The *Longman Dictionary of Business English* writes the following as a second definition for the word “service”: “a regular supply with something that helps the society and satisfies a public demand”. The *Macmillan Dictionary of Modern Economics* gives an approach to services from the aspect of economics: “in an economic sense all functions and tasks can be considered as services which are carried out and for which there is a demand; thus they have a price. Sometimes they are re-

ferred to as non-physical goods; one of their characteristics is the fact that they are consumed where they are produced. Usually they cannot be transported, thus they resist arbitrage in the sense that it is impossible to buy a service somewhere and then re-sell it in a different place at a different price.”

In the everyday sense of the word “service”, we usually mean activities that make our lives easier and more pleasant: repair and cleaning activities, the hairdresser etc., i.e. the “classical” forms of services (personal and household services). The concept of business services varies in international practice and in the literature, but all the different categories and classifications have a common feature: usually those activities are listed among the business services which are mainly used by enterprises, companies or individuals for economic activities. Many times they are used as synonyms for producer services. In this case all service activities that do not satisfy the demand of the final consumers, the population (i.e. those who do not belong to the category of consumer services), are business services.

If we compare services to traditional products, they have several characteristic features which differentiate them from the goods created by agriculture or industry:

- the production and consumption of a service usually coincide, services cannot be stored or owned (that is why they can resist arbitrage);
- compared to agriculture and industry, services are not productive (according to Adam Smith and Karl Marx), since it is not possible to store or own them, they only have a use value but no added value. This means that they cannot contribute to capital accumulation;
- the consumer is an active participant in the creation of the service (with the exception of the pure community services and some information services);
- they are labour intensive (formerly this mainly characterised transportation and telecommunication services, by now many services have become capital intensive);
- economies of scale are usually limited;
- a personal contact with the consumer is essential and necessary (which also means the necessity of spatial proximity to the customer at low levels of development of transportation and telecommunication services);
- service activities prefer “central places”;
- they have a high income elasticity;
- mostly they are “white collar” jobs offering relatively stable conditions and require skilled labour force.

There are some products or activities that are border cases between secondary and tertiary activities. These are:

- public utilities, which belong to the secondary sector in Europe, but to the tertiary sector in North America;

- activities which basically belong to the secondary sector, but also do repair and maintenance works (e.g. the construction industry);
- information services stored in different media (e.g. on CD, diskette, tape, paper); they are not typical services in the sense that the consumer does not take part in their production but consumes the end product. Furthermore, the media that convey the information can be stored and owned. The reason why they can be considered as services is that their information content is much more important and more valuable than their physical form;
- leasing and hiring out activities;
- creative activities that produce a tangible outcome (e.g. sculptures, paintings, etc.).

In many cases, the distinction between products and services is blurred. Let us take mass communication or restaurants. In both cases, we buy a certain product, but in the creation of that product the knowledge and information invested in it is often just as important as the physical product. More valuable consumer goods are often marketed together, as a package with certain services. For instance, in computer technology, hardware is usually marketed with software, as a package. If we purchase a car, the dealer will do some after-sale services. She or he will help us in the maintenance, repair and *service* of the selected car.

When it comes to the classification of services, there are two main types: by sector and by occupations. Within both versions, several sub-divisions are possible. Finally, following *Illeris*, a new classification is introduced from a different perspective.

2.1 Sectoral classification of services

The basis for such classifications is usually provided by NACE (*Nomenclature des Activités dans le Communautés Européennes*) or ISIC (*International Standard Industrial Classification*). The classification, which takes place according to the main output or result of the activity, is the following:

- wholesale and retail trade, hotels and restaurants, repair activities;
- transportation and telecommunication;
- financial, insurance and business services, hiring;
- other services: public administration and defence; sanitary services and cleaning; education and research; health and social services and organisations; entertainment and cultural services; personal and households services.

In Hungarian practice, class No. 712 in the *List of Service Activities* contained business services (see *Table 1*).

Table 1

Main classes of business services in the List of Service Activities

OTHER ACTIVITIES OF MATERIAL CHARACTER
Hiring and leasing of productive means
Other activities of material character
PROFESSIONAL SERVICES CONNECTED TO ECONOMIC ACTIVITIES
Quality control
Services of measurement and safety technology
Hire-storage, real estate control
Packaging, transportation of goods
Advertising and commercial activities, organisation of fairs, market research
Cartographic, surveying and meteorological activities
Technical and economic services
Measuring activities
OTHER BUSINESS SERVICES
Office and management services
Labour and production organisation
Other services of economic character (e.g. procurement, value assessment, intermediary activities)

Source: Szolgáltatási tevékenységek jegyzéke. Budapest, Központi Statisztikai Hivatal. 1987. pp. 38-40.

Within the class called business services, such activities were put together which in market economies, in more sophisticated statistical systems, make independent sub-classes (e.g. the heading "management services" contained accounting, statistical activities, tax consultancy, consultancy on economic management, etc.). Furthermore, important market activities were not even mentioned as subtitles because they did not have any significance to Hungarian practice. This situation was changed by the modernisation of the statistical system in 1992, when the classification system of the advanced market economies was adopted. Today, Chapter 14 of the *List of Services* (Services promoting economic and societal activities) contain business services (see *Table 2*).

The location theory and the "economic base model" are also worth mentioning here. Location theory and the "economic base model" distinguishes between basic and non-basic activities. Basic are those activities which are able to export goods from a certain region; non-basic activities serve basic activities. Because at lower levels of economic development personal contact between the supplier and the consumer of services was inevitable and the costs of transportation were relatively high, services could only be marketed within given regions. This way services could not be considered as basic activities. By now this view has become more or less outdated: with the progress of technology (especially computer technology) it is becoming easier to export services, especially simple, standardised service products. Thus, more and more services fall into the category of "basic services" (*Illeris, S. 1996*).

Table 2

Main groups of the heading "services promoting economic and societal activities" in the List of Services

Legal services
Accounting, auditing and tax consultancy
Market research and public opinion survey
Management consultancy
Architectural and engineering services and related technical consultancy
Professional planning, consultancy
Technical testing and analysis
Advertisements
Mediation and lending of manpower, and connected consultancy
Investigation and security services
Cleaning of buildings
Photography, shooting of video films
Packaging
Miscellaneous services promoting economic activities
– transportation of goods
– collection of fees
– translation, interpretation, vetting, editing
– organisation of scientific meetings, trade shows, fairs, exhibitions
– fashion design, design, consultancy

Source: Szolgáltatások jegyzéke. Budapest. Központi Statisztikai Hivatal. 1994. pp. 32–35.

2.2 Classification of services according to occupations

Formerly this kind of classification received less attention compared to sectoral classification. The basis of such a grouping may be the ISCO (*International Standard Classification of Occupations*). Several researchers (e.g. *Johnstad*) divide service activities into the following categories, based on their role in the production system:

- distributing services: transportation, telecommunication and trade;
- information jobs: public administration, research and arts, clerical works, etc.;
- services connected to the recreation of labour force: health care and social services.

Boulianne and *Thévoz* started from the functional survey of producing companies, distinguishing between R + D, supply and storage, organisation, management, maintenance and sales. *Gottman* introduced the notion of the quaternary sector. His idea was to separate metropolitan activities with a rapid employment growth. *Abler* and *Adams* further developed this concept and divided economic activities

into five sectors, three of which are pure services: the tertiary sector, which produces services connected to tangible products (transportation, repair); the quaternary sector, which is responsible for the mass production of routine information (financial services, insurance, etc.); and finally the quinary sector, which is responsible for the production of tailor-made, non-routine information, and for decisionmaking. Governmental activities are a good example of the quinary sector.

In addition, the object of the activity can serve as a basis for classification. In this approach, we can talk about products, information and persons. *Hill* based his classification system on this, distinguishing between the following types of services:

- services dealing with products (which change the state of a product);
- services dealing with persons;
- pure public services.

Illeris applied a similar approach when making his classification. This latter one is worth special attention not only because of its novelty and synthesising character, but also because it is based on practical experiences and is best adapted to the economy of modern societies (*Illeris, S. 1996*).

The classification of *Illeris* is as follows:

A) Services connected to products (person-product relationship):

- 1) individual production (cleaning, maintenance, hotels and restaurants, letting);
- 2) standardised production (distributing services: goods transportation, wholesale and retail trade).

B) Information services (person-symbol relationship):

- 1) individual production (quaternary services: company management, higher administration, research, consultancy, arts, entertainment, mass communication, production of softwares, strategic banking and insurance activities, public administration, sectoral organisations);
- 2) standardised production: routine administration and lower administration, telecommunication, routine computing services, financial and insurance service.

C) Services connected to persons (person-person relationship):

- 1) individual production: education, health care, body care, sports, care for children, disabled and elderly people;
- 2) standardised production: transportation of persons.

D) Societal security services: police, defence.

A1, B1 and C1, i.e. individual, tailor-made production only allows a limited growth in productivity. The consequences can be different: either they will be produced within households and companies, or the demand for disposable products which do not require any maintenance will increase; if neither solution seems to be applicable, the number of employees will increase in these sectors. In the case of

A2, B2 and C2, i.e. standardised activities where mass production is possible, the possibilities to increase productivity are better. Consequently, the number of employees here will either stagnate or decrease.

Illeris in his recently published book mentions the presently used ISIC 68 classification, which only covers four categories of services (*Illeris, S. 1996*):

- trade, hotels and catering industry;
- transportation and telecommunication;
- financial and business services;
- other services.

The NACE rev 1, which is herein introduced, is a more realistic approach to the classification of the service activities. The division of the tertiary sector is as following:

- G) Trade, repair of vehicles and household goods.
- H) Hotels and catering industry.
- I) Transportation and telecommunication.
- J) Financial activities.
- K) Real estate, leasing and business services.
- L) Public administration.
- M) Education.
- N) Health care and social services.
- O) Waste management, associations, recreation, cultural and sports activities, personal services.
- P) Household services.
- Q) Diplomacy, international organisations.

The classification of the Central Statistical Office in Hungary is very similar. In it, one will find the following service activities:

- G) Trade, repair and maintenance of road vehicles and goods of public use.
- H) Hotels and catering industry.
- I) Transportation, storage, postal services and telecommunication.
- J) Financial activities and connected activities.
- K) Real estate, leasing and services promoting business activities.
- L) Public administration, social insurance.
- M) Education.
- N) Health care and social services.
- O) Other community, social and personal services.

The supply of statistical data on service activities is still much poorer than in the case of manufacturing. Business services which are obviously different, such as computing services, R + D, management consultancy, marketing, PR, etc. fall into the rather broad category of “services promoting economic activities”, making it very difficult to obtain data on them individually.

3 The international progress of services

The historical trend of economic development is the history of evolution from an agrarian economy to a service economy. In earlier divisions of labour, agricultural activity may have been dominant. The number of service activities was relatively moderate then, and these were mainly restricted to the fields of state administration, trade and finance. Their development started only within the last century.

The USA was the first country in the world, right after World War II, which could be defined as a “service economy”. In the second half of the 1940s, the rate of tertiary employees exceeded 50% of total employment. By 1980, this rate grew to more than two thirds. Western Europe followed the United States with a few decades of delay. In the EEC, the proportion of tertiary exceeded 50% of the total by 1977. The share of services from employment and GDP in a few developed countries of the world can be seen in *Tables 3 and 4*.

Table 3

The share of tertiary employees out of total employment (%)

Country	1964	1970	1975	1980	1986	1991–92	1995
USA	58.4	61.1	65.3	65.9	69.3	72.2 ^{c)}	73.1
Canada	56.2	61.4	64.6	66.0	69.2	63.2 ^{b)}	73.0
Japan	43.3	46.9	51.5	54.2	58.3	59.9 ^{c)}	60.7
Australia	52.7	55.0	59.4	62.4	67.9	71.4 ^{c)}	72.1
Austria	37.5	44.1	48.3	51.5	53.4	55.9 ^{b)}	60.5 ^{d)}
Denmark	47.1	50.7	58.8	63.3	66.6	66.6 ^{b)}	67.7 ^{d)}
United Kingdom	49.4	52.0	56.6	59.2	70.6	74.4 ^{c)}	73.9
France	41.2	46.4	51.1	55.3	65.0 ^{a)}	68.8 ^{c)}	72.8 ^{d)}
FRG (Germany)	40.6	42.9	46.6	49.2	54.7	61.5 ^{c)}	59.1
Italy	36.2	40.3	44.2	48.0	61.6	64.0 ^{b)}	60.2
Sweden	45.9	53.5	57.1	62.2	66.5	71.6 ^{b)}	71.0

^{a)} Data of 1985; ^{b)} Data of 1991; ^{c)} Data of 1992; ^{d)} Data of 1994

Source: Németh, Gy.–Papp, I. 1995. p. 33.

There are several reasons why services grew:

- growth in the other sectors of the economy (this mainly led to the development of the “intermediary” services, i.e. services that are used by other sectors during their production);
- enrichment of European societies and firm relocation to poorer areas of the world (which mainly have triggered the development of services for final consumption);
- because services are less productive compared to other sectors of the economy, growth could only be achieved with a significant increase in the number of workers, pulling them away from other sectors.

Table 4

Share of tertiary sector out of gross domestic product (% of GDP)

Country	1975	1980	1982	1986	1988	1991	1995
USA	64.2	63.8	65.7	66.6 ^{a)}	n. a.	n. a.	n. a.
Canada	63.4	63.2	66.7	62.1 ^{b)}	n. a.	n. a.	n. a.
Japan	54.2	54.4	53.9	56.4	56.2	58.0	58.0
Australia	62.5	58.5	–	62.4	64.3	67.8	67.8
Austria	50.5	55.9	57.5	59.4	59.8	59.5	59.5
Hungary	31.5	42.9	41.9	43.5	41.6	57.9	57.9
Denmark	66.4	70.2	70.2	71.0	71.9	n. a.	n. a.
United Kingdom	54.2	54.4	53.9	56.4	66.8	n. a.	n. a.
France	57.3	60.0	61.6	61.8	67.4	66.9	66.9
FRG (Germany)	48.6	55.2	59.7	57.6 ^{a)}	58.4	62.5	62.5
Italy	49.7	55.2	53.6	61.3	62.6	64.1	64.1
Sweden	58.1	65.3	66.2	66.2	67.0	67.0	67.0

^{a)} Data of 1985; ^{b)} Data of 1984

Source: Németh, Gy.–Papp, I. 1995. p. 34.

Other, temporary or constant factors also contributed to the growth of services:

- natural endowments, geographical position, location (e.g. transit countries, ports, tourist destinations);
- general economic policy (in state-socialist countries the development of the “non-productive” and “parasite” services was neglected during the last few decades compared to the productive sectors, although there were some “socialist welfare” systems, such as education, health care, public administration etc. Another example of the role of economic policy can be taken from the countries of the Far East, where one of the main priorities was the development of education for a long time);
- technical–technological development, patents;
- volume and structure of the resources used;
- general political conditions, features.

The pace of the growth of services is more balanced than that of the whole of economy. In times of recession, the volume and price level of services increase more than the total production of the national economy, but less than that of a general economic boom.

In developed countries other factors also contribute to the growth of services:

- in the transportation and telecommunication sector, technical progress and the development of the international trade and telecommunication connections (within the service sector, this is the branch where differences in the level of development among the individual countries are the largest);

- in the field of financial, business services, the spread of computer technology and modern information technologies created the possibilities for rapid development and internationalisation;
- governmental services grew at a pace somewhat lower than the average;
- the pace of development in the community, social and personal service also lagged behind the average growth rate of services, as technical development is the slowest in this field, and these are the services which, because of the necessity of personal participation and labour intensity, are hard or impossible to automate;
- trade and catering service showed the lowest growth rates in the developed countries, but these had already reached a relatively high level of development earlier.

In the first line of international development, intellectual work is more and more appreciated, making information services one of the main components of economic development. Using human skills and information services, material production has also become much more effective. Parallel to that, in the future probably a large number of workers will move to consumer information services (such as entertainment, arts, culture, education, further training) or to welfare and security services provided by the state (health care, education, social, security services, public administration, etc.).

A concomitant to development is the appearance of new types of services. Advertisements and commercial services are worth special attention among them. Their outstanding growth rates come from the fact that they are an integral part of the modern economy; no company can work effectively in the market sphere without commercials (in fact, advertisements are gaining more and more importance in the non-profit sphere. This is supported by the increasing use of non-profit marketing). From the aspect of economic competitiveness, the role of different consulting and information services may be even more important. Surveys on international trends clearly show that in the market of physical goods, the most competitive products are those that include the largest amount of services.

The role of services is increasing not only within national economies but also in foreign trade relations, despite the fact that services are much more difficult to export than physical products. A large part of the export is the so-called “invisible export”, i.e. by foreign citizens using services in another country. The share of services from the export and its development tendencies in some countries are shown in *Table 5*.

Until the early 1970s, the growth of trade of services lagged behind the increase in the trade of goods. Until the mid-1980s, growth rates were about equal, since then the trade of services has increased more than the trade of goods. In the early 1990s, approximately one quarter of world trade was connected to services.

Table 5

*Share of services from the total of export
(% by selected country)*

Country	1975	1980	1985	1990	1992
USA	20.6	20.3	19.8	20.7	21.2
Japan	15.4	13.9	11.9	12.5	13.1
England	28.4	25.1	24.4	25.5	26.0
Austria	33.5	40.2	35.7	35.0	35.2
Belgium	22.3	22.4	21.4	21.8	22.0
Denmark	27.1	n. a.	24.6	24.4	24.8
Finland	16.1	16.8	14.8	16.3	16.0
France	22.5	29.2	28.3	27.0	26.2
Greece	44.9	49.9	38.5	47.1	49.2
Holland	23.3	21.1	19.7	19.1	20.0
Israel	37.5	33.5	32.4	29.2	30.7
Hungary	8.5	8.3	12.6	17.7	n. a.
Norway	38.4	31.6	27.2	29.8	28.6
FRG (Germany)	17.1	16.9	17.1	14.9	15.7
Italy	22.8	22.9	22.6	21.8	22.3
Portugal	33.2	31.7	26.6	30.7	27.5
Spain	41.5	36.3	35.2	38.2	37.6
Switzerland	24.7	20.5	18.4	19.2	19.8
Sweden	16.7	19.8	18.5	16.6	17.3
Turkey	29.7	19.6	24.1	30.7	30.3

Source: Németh. Gy.–Papp. I. 1995. p. 36

4 The development of services in Hungary

The construction of modern infrastructure started in Hungary in the second half of the 19th century, forced by the need to integrate into the world economy. The development level and capital accumulating capacity of the economy did not allow the construction of an up-to-date transportation network, especially railway and river navigation, so the infrastructure, which was adequate according to developed world standards at that time, was mainly constructed with foreign capital and significant state participation. A special situation occurred: the development of the infrastructure exceeded by far that of the general level of the economy, creating excellent possibilities for further economic growth.

In the period between the world wars, economic growth and infrastructural developments slowed down. Modern infrastructure went through a significant modernisation in the world at this time, with which Hungary could not or could catch up only to a limited extent. So infrastructure, both in structure and quality, started

to lag behind the developed world, although it was still more advanced than the whole of the economy.

Following World War II, a change in paradigm took place, just like in all other state-socialist countries. The transition of economic development priorities did not favour services at all. The tertiary sector, although already lagging behind the upper level of that age, was still more developed than the goods producing sectors. The development of services, however, was consistently neglected compared to that of goods production. In state-socialist economic development, the support of goods-producing sectors was considered top priority, and economic policy almost saw the development of services as a burden which takes resources away from other sectors that should be developed. Those branches of services which required large amounts of capital were especially struck by this policy (e.g. transportation, construction of flats, communal supply, etc.). Sectors which were less capital intensive (education, health care, cultural services) were promoted, but the development that was carried out were mainly extensive ones.

In summary, in the period of state-socialist economic development, services were neglected, the inadequate developments were almost exclusively quantitative ones, and hardly any structural and technical transition, technical development took place. It ended up in a situation where the level and structure of the tertiary sector blocked the development of the economy, and the lagging behind was even reinforced in the last decade. As a short description of the present situation we can say that the development level of the tertiary sector lags behind not only international standards but also the demands and general development level of the economy (Németh, Gy.–Papp, I. 1995).

From the 1960s, the growth rate of services was about the same as that of the OECD countries, but the starting point in Hungary was much lower, of course, so this development was relative and our significant lagging behind did not decrease. Also, the inner structure of the tertiary sector changed to an unfavourable direction. The international tendency at this time showed a rapid growth in financial, housing and business services, also transportation and telecommunication. At the same time, it was just transportation, postal services and telecommunication that showed the slowest growth in Hungary, and health care, social and cultural services grew the most rapidly. This situation is still typical, and poor infrastructural conditions (telecommunication, housing and business sites, financial and business services at an adequate level) are a serious bottlenecks in the opening of the economy and the attraction of foreign capital.

The transition of the economy in the last few decades and the sectoral development trends of the two main resources of the economy are shown in *Tables 6* and *7*.

Looking at the development of services during the last century, four phases can be distinguished:

Table 6

*Breakdown of active earners by economic sectors
(figures related to the beginning of each year, %)*

Sector	1960	1970	1980	1990	1993	1995
Industry	27.9	36.3	33.9	31.0	28.7	30.4
Construction industry	6.1	7.7	8.2	6.9	6.2	3.7
Agriculture and forestry	38.5	24.4	19.0	18.1	9.9	6.9
Water management	0.2	1.2	1.5	1.6	1.3	n.a.
Transport., postal serv., telecom.	6.5	7.3	8.1	8.4	8.5	9.6
Trade	6.3	7.9	9.8	10.8	15.0	7.1
Other activities of material char.	–	–	0.9	0.9	0.8	
Personal and economic services	2.5	2.8	3.1	4.3	5.6	J: 2.6 ^{a)}
Health care, social and cultural services	5.6	7.7	10.4	12.9	17.7	K: 3.1 L: 10.5
Communal, administrative and other services	6.4	5.0	5.1	5.1	6.3	M: 11.8 N: 9.6 O: 2.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Németh, Gy.–Papp, I. 1995. p. 42.

^{a)} Because of the change in the collection of statistical data, the figures for 1995 were registered according to the new classification. Services belonging to the individual letters can be seen in the previous chapter, on the classification of services.

Table 7

*Breakdown of the gross value of capital assets by economic sectors
(at current prices, %)*

Sector	1960	1970	1980	1990	1992
Industry	20.2	22.7	24.9	26.4	23.1
Construction industry	0.6	1.0	1.7	1.5	1.6
Agriculture and forestry	6.2	10.9	10.9	10.3	8.5
Transportation, postal services, telecom.	19.2	18.7	21.2	17.4	13.9
Trade	1.1	1.8	2.5	3.2	4.0
Water management	7.7	5.8	4.9	5.2	4.8
Other activities of material character	–	–	0.6	0.8	0.9
Sectors of non-material character	45.0	39.1	33.3	35.2	43.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Németh, Gy.–Papp, I. 1995. p. 41.

- in the period between the second half of the 19th century and World War I, the development of services (mainly infrastructure) exceeded the growth rate of the whole of the economy by far; this period can be called the “development take-off”;

- in the second period, between the two world wars, the difference between the growth rates decreased; this is the period of “parallel development”;
- following World War II, in the socialist economic system, the development of services lagged behind material sectors; this is the are of the “lagging behind development” of services;
- the fourth phase, since the late 1980s (which is discussed in more details later), can be called the period of “catching-up development”.

3.1 Consumer services

When discussing the development of services in Hungary, a separate sub-chapter should be added on the so-called consumer services. This statistical category appeared in Hungary only, and in other countries such a category does not exist. Consumer services are services produced for the end consumption of the population or companies. These can be:

- consumer services provided for the population (e.g. personal services, retail trade and goods transportation, repair of durable consumer goods with warranty, etc.), ordered by the private sector, or
- consumer services ordered and consumed by companies.

The category of consumer services covers many types of services, so it can be taken as a kind of “inter-sectoral” category. These versatile activities have some features in common (e.g. high labour intensity, individually produced services, tight and confidential relationship between the customer and the service producer, location of the service firms following the spatial distribution of the demand, etc.), which justifies their handling as a single category. For a long time, most of these services were produced under state control, the negative consequences of which were of two types. On the one hand, a social policy approach was a typically paternalistic state supply of these services for the population. On the other hand, there was not enough capacity to meet demand and the state tried to eliminate bottlenecks by creating large state-owned service companies.

This category contains approximately thirty groups of services. Without aiming for completeness, the following should be mentioned: car repair and maintenance; repair, maintenance and installation of electric household devices; repair and maintenance of watches; production, repair and maintenance of jewellery; repair and maintenance of footwear and clothes; washing, cleaning and dry cleaning; repair, maintenance and renovation of buildings; hairdressers and cosmeticians; photography, video recording; cleaning of flats, parasite control; goods transportation for the population, taxi transportation; services provided for do-it-yourself activities; purchase of second-hand consumer goods; and letting of consumer goods.

The real significance of these services in the economy is not only the number of employees and the value of the services produced. The maintenance and repair of national property secures its durability for a long period of time. Securing the functioning of houses, durable consumer goods, cars, etc. is a bigger economic value than shown by figures on the value of services (just over 1% of gross national product, approximately 9% of the purchased consumption of the population, 5% of active earners and 13% of tertiary earners).

The role of these consumer services can be approached from a different perspective. The existence or absence of these services and their level fundamentally determine the quality of living conditions. In earlier periods of the history, the main factors of location were raw materials, sources of energy and the large number of cheap, unskilled labour force. Recently, the well-trained, high quality labour force has gained great importance (as has cheaper unskilled labour abroad). The former situation, in which the labour force moved wherever they found jobs, is changing now. The highly qualified labour force that is in a position to choose where they wish to live must be followed by the companies if they want to stay competitive. People evidently settle down in environments that appeal to them. Very important components of a pleasant living space are education, culture, environmental protection, public safety, i.e. traditional consumer services. We must not forget the fact that the above-mentioned consumer services are not only used by the population but they also determine the conditions for the operation of economic entities and of infrastructure. There are some kinds of services which are consumed by legal entities and producer companies just as much or even more than the citizens (*Table 8*).

A consistent development policy for consumer services emerged in the late 1960s. By this time, the pressure from the unsatisfied needs of the population were strong and the state tried to solve the problem by establishing large national and county level service companies operating under strict state control and with an intensive state participation. As a result of this, by the 1970s, some favourable tendencies in the development of services could be seen. An increase in the consumption of the services exceeded the growth of the total consumption of the population for the first time. The supply of services expanded and prices were low. By the late 1970s, as a result of the intensive and rapid development of services, most of the demand could be met, and the increase in the consumption of services continued in the early 1980s, despite worsening economic conditions (decline in living standards, decrease in the budgetary support for development, etc.).

From the 1980s onwards, market mechanisms gained ground in the field of services, too. Because of decreasing state support provided for service activities, less and less services were subsidised by the state, and the prices of the services were liberalised to some extent. At the end of this process, from 01.01.1988, all consumer services had uncontrolled price, state subsidies ceased to exist. As a

Table 8

Breakdown of consumer services by customers (%), 1989

Specification	Done for the population	Done for businesses	Total
Repair of cars	80.6	19.4	100.0
Repair of electric household devices	67.8	32.2	100.0
Repair and maintenance of telecommunication devices	70.0	30.0	100.0
Cleaning, dry cleaning	54.6	45.4	100.0
Repair, maintenance, renovation of flats	48.7	51.3	100.0
Repair and maintenance of gas devices	50.2	49.8	100.0
Repair and maintenance of furniture	70.1	29.9	100.0
Repair and maintenance of other products	54.8	45.2	100.0
Letting of consumer goods	54.7	45.3	100.0
Personal services	87.8	12.2	100.0
Total of consumer services	72.3	27.7	100.0

Source: Németh, Gy.–Papp, I. 1995. p. 46.

consequence of the tax and price reform introduced at this time, the former special regulation on services was eliminated and all business entities became subject to the general taxation system. This way the price increase of the services was even more rapid than that of the already high consumer price index. The low productivity and the lack of interest of some service producers resulted in the shrinking in the supply of services. The total of services produced continued to increase, but in some areas the signs of decline appeared (*Table 9*).

On the supply side of consumer services, private property had been dominant as early as a decade or two before the systemic change. By 1989, 70% of all the consumer services was produced by the private sector. All sectors of the economy carried out some consumer service production, but in the second half of the 1980s the number of pure service companies fell. They tried to compensate for the decreasing profitability (or even the losses) of service activities with other, more profitable activities. The structure of the consumer services sector was fundamentally transformed after 1982, when, mostly by administrative fiat, large national or county service companies were restructured into a large number of small organisations. The growth rates of the public and private sector can be seen in *Table 10*.

Summing up the features of consumer services, the following statements can be made:

- because of the coincidence in space and time of the production and consumption of the services, an adequate supply of services can be fulfilled by the decentralised location of the service providers;
- many of the purchased services can be substituted by the production of the services within the households, and with the decline in the living standards this is more and more typical;

Table 9

*The development of the volume of some services
(change compared to the previous year in %)*

Specification	1985	1986	1987	1988	1989
Repair of cars	3.5	2.1	8.7	2.4	5.7
Repair of electric household devices	4.7	-2.0	4.5	4.0	11.5
Repair of telecommunication devices	3.6	-4.0	-1.2	4.0	-5.0
Textile cleaning	-8.7	0.7	5.5	-25.7	-13.3
Repair of flats	1.1	0.3	8.4	10.4	11.9
Repair of footwear	1.5	-1.5	0.2	-10.3	3.0
Hairdressers	2.3	-1.0	4.3	-4.1	0.1
Photography	11.6	17.5	13.6	-13.5	2.1
Goods spedition	16.0	12.1	12.3	7.7	14.6
Letting of consumer goods	2.2	13.5	6.8	-8.2	-16.8

Source: Németh, Gy.–Papp, I. 1995. p. 49.

Table 10

*Increase in the volume and the price level of services produced for the
population (change compared to the previous year in %)*

Years	Volume		Price level	
	Socialist	Private	Socialist	Private
1984	3.9	7.0	3.9	9.8
1985	0.1	4.8	6.9	7.8
1986	2.2	5.0	7.0	8.0
1987	5.9	9.8	6.2	9.7
1988	-9.3	11.7	26.8	18.9
1989	-7.3	16.4	15.4	10.9

Source: Németh, Gy.–Papp, I. 1995. p. 50.

- illegal services also grew, for the reason mentioned in the previous point;
- many of the services cannot be substituted, because of their individual nature, so their production requires a high level of flexibility;
- the major part of such services is produced by SMEs that are bound in space and do not or hardly co-operate with each other;
- the assessment of the quality of the services is difficult, so the relationship and trust between the consumer and the service producer is important;
- these services are hard to mechanise and automate, thus productivity slowly and the price level rapidly increases;
- some of them can be done by the households themselves, so the competitors of the service companies are not only other businesses but households as well.

In connection with the future development of the consumer services, two trends should be mentioned. The first is that the decline of their purchases still continues because the home production of these services results in real or seeming savings; the second reason is that the fragmentation of the supply (division of large state enterprises, privatisation) may amount to a temporary decline in the supply of some services.

Finally, a few words should be mentioned about the share of the services within the GDP. In recent years the proportion of services within GDP has significantly increased (see *Table 11*), but these spectacular figures can be misleading. On the one hand, total GDP decreased in the relevant years. On the other hand, the "penetration" of services is relative, a result of the shrinking of primary and secondary sectors. This is a serious problem because without a developed and productive agriculture and industry, it is very hard to create and sustain high quality, modern services.

4.2 Services during the transition

The socio-economic transitions which started in the late 1980s probably had the biggest influence on the service sector. The tertiary sector, just like the whole of the economy, is in a transitory situation at the moment and we cannot say yet that the desired market economy is realised. In the previous chapter, the phases of the development of services were mentioned and this period was labelled the "take-off, catching up" phase. "A special feature of the tertiary sector is the fact that the economic, social and political tasks of the transition require the presence of temporary service activities, as well." (*Németh, Gy.–Papp, I. 1995, p. 54.*)

Table 11

Breakdown of the income side of the GDP balance sheet (%)

Specification	Breakdown					
	1990	1991	1992	1993	1994	1995
Industry	32.3	26.8	27.2	26.6	33.9	35.9
Construction industry	6.4	5.3	5.0	5.0	5.4	5.1
Agriculture and forestry	15.8	10.0	9.8	10.6	7.8	7.8
Transport., postal serv., telecom.	8.8	8.0	8.8	9.2	6.8	7.5
Trade	12.0	14.3	15.2	15.3	10.2	10.1
Water management	1.5	1.1	1.2	1.1	n. a.	n. a.
Other activities of material character	1.3	1.3	1.2	1.1	n. a.	n. a.
Total of activities of material char.	78.1	66.8	68.4	68.9	n. a.	n. a.
Sectors of non-material character	21.9	33.2	31.6	31.1	n. a.	n. a.

Source: Németh, Gy.–Papp, I. 1995. p. 53.

Note: As a consequence of the incompatibility of the new sectoral code system with the previous one, the data for 1994 and 1995 are deficient

A natural consequence of the political and social systemic change is that the greatest transformation took place in the field of public administration. Many of the former institutions disappeared and new ones were created. Some of these were meant to be temporary at the time of their establishment, like the Compensation Offices and the institutions and services created in connection with privatisation, some others will probably remain stable and lasting elements of the new system, such as the institutions responsible for the management of state property or dealing with unemployment. The change in the economic model and the creation of the desired market economy required fundamental changes in some other branches of the tertiary sector, too. The system of institutions for taxation were introduced in 1988. The Competition Office, responsible for the regulation and control of economic competition, was established in 1991. Legal services went through significant changes, too, but the quality and speed of making economic laws still leaves much to be desired.

From service activities in the private sector, advertisements and commercials had the most spectacular development, being very important elements for successful competition. The category of business services and services promoting economic activities were developed even more (tax and financial consultancy, auditing) and some types of services that had been previously unknown appeared as well (head-hunter companies, PR firms, companies specialised in property protection, intermediary agents, etc.). The most dynamic development is expected in this sector in the future, which is largely attributable to the fact that more and more companies choose to purchase services from outside the company instead of producing them internally (i.e. they prefer the externalisation of services). The choice between externalisation and internalisation can depend on many factors:

- the specialisation process of the services strengthens externalisation, their standardisation promotes internalisation;
- the frequency of the use of an individual service largely determines if a company buys the given service or produces it itself;
- companies are reluctant to let anybody know strategic information, which pulls toward the internal production of the services (which also decreases risk);
- it is very important whether certain services are available locally or not;
- internalisation is promoted by the fact that the labour force of a company can be utilised in a more flexible and efficient way, thus the expenses of production decrease and the output increases.

In general, we can say that companies prefer the internal production of services when the co-ordination costs are lower than transaction costs. They choose externalisation when the skills, flexibility and efficiency of independent external service firms exceeds those of the buyer company. Also, the size of the buyer companies is important. Large businesses are able to produce economically a much larger

number of services than SMEs. The latter firms depend much more on the presence and skills of external economic companies. Present trends in the economy show an increase in the number of small and medium size enterprises. The proportion of companies with more than 300 employees was 19.3% of total companies in 1989. By 1991 this figure dropped to 4.1%. During the same period of time, the share of firms with less than 21 employees grew to more than 70% and by 1994 this figure reached 80%. This process will probably contribute to the externalisation of services. Service activities are usually carried out by SMEs because small size is more suited to the specific requirements of services (flexibility, personal contact and friendly relationships with the clients, etc.).

Significant changes took place in trade as well, mainly quantitative ones, but some elements of a qualitative progress are also visible (tele-shopping companies, consumer network building, discount stores, although the operation of these is not always free of problems). In trade, the private sector has been dominant since the late 1980s (see the increase in the number of private shops in *Table 12*), but in the volume of turnover, some multinational companies (METRO, Drogerie Markt, Baumax, etc.). are also significant. As part of a qualitative development, companies working according to a franchise system have appeared and have grown dynamically. One of the main trends will probably be the expansion of franchising in the future. Progress was moderate, however, in key services such as transportation, telecommunication and housing, which are crucial for economic and social development. These fields require a review of the present participation of the state and a consistent implementation of a development programme which is independent from the political attitude of the government in power. If that independence is

Table 12

Shops owned by private business people

Specification	1989	1992	1993	1994	1995
Food and other goods for daily consumption	7,257	26,579	32,333	36,136	38,266
Clothes	7,839	16,109	18,904	18,759	21,897
Drugstore	693	2,691	2,136	2,340	2,465
Manufactured goods	2,495	6,150	11,388	12,750	14,172
Books, tapes and other media of culture	1,100	5,048	2,503	2,887	3,236
Other specialised shops	9,131	22,071	26,297	28,618	28,793
Construction material and fuels	781	2,092	2,033	2,178	2,369
Chemist's shops	–	233	381	476	919
Total of shops	29,296	80,973	95,165	104,144	111,198
Restaurants	3,078	4,682	5,397	5,813	6,131
Cafeterias, bars etc.	7,238	24,768	28,026	30,190	31,807
Canteens	–	1,090	1,368	1,522	1,653
Total of catering establishments	10,316	30,540	32,623	37,525	39,951

Source: Statistical yearbooks of the Hungarian counties, 1992, 1995. Budapest, Központi Statisztikai Hivatal, 1992, 1995.

absent, even those development concepts and programmes which are good for certain fields cannot be implemented for lack of co-operation. Also, the implementation of such programmes takes several parliamentary cycles, so they can come to a dead end if they are subject to temporary political interests or party programmes. When talking about the tertiary sector in the transitory period, we cannot neglect the illegal sphere. Illegal service activities had been present before the reform of the taxation system, but following that they grew rapidly because of the “mutual interests” of the producers and consumers of the services. Some estimates say that 20-30% of total GDP is produced by illegal activities. The illegal or “black” economy is a reality not only in Hungary but also in the more developed and well-off part of the world and it would be unrealistic to try to eliminate it totally because its existence can be traced back to social and economic reasons. From the supply side, the reason is unemployment and the large number of illegally employed “guest workers”, from the demand side the often false advantage that the customers think they get by avoiding certain expenses. The higher the costs for legal activities and the less the danger of being caught, the more the black economy will flourish. Also, punishments are not severe enough to ruffle the feathers of economic actors in the black economy. A stable source of demand are those who, for their low level of income, choose to use the more risky but cheaper (or at least seemingly cheaper) “black” services.

5 The regional differentiation of service development

The proportion of Hungarian regions within the total number of employees and the number of tertiary employees can be seen in *Figure 1–5*. (Source: Statistical year-books of the Central Statistical Office).

Some interesting conclusions can be drawn from the figures:

- the most striking is the fact that the proportion of the regions has been stable for a quarter of a century: the central region exceeds all other regions by far;
- the only region where the share from the tertiary employment is higher than from the total number of the employees is the central region, everywhere else the weight of the individual regions in services lags behind their share from total employment;
- until the early 1990s, the share of the central region had decreased to some extent and those of the other regions grew, but then the situation turned over: in the first five years of the 1990s, the proportion of Budapest and Pest county grew by some 20%, while those of the other regions decreased by 10–15% (see *Figure 6–7* and *Table 13–14*).

Figure 1

Share of the regions in total employment and in tertiary employment in Hungary, 1960

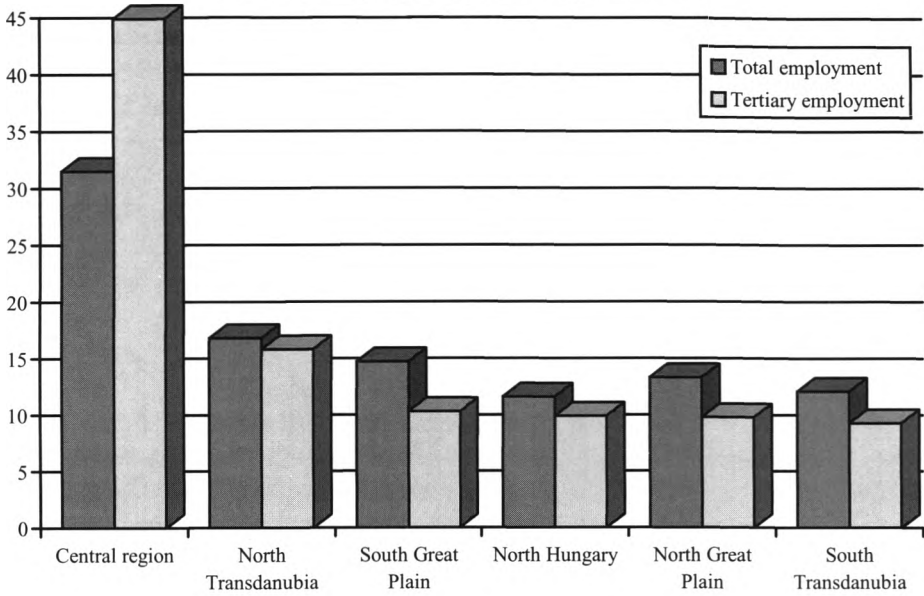


Figure 2

Share of the regions in total employment and in tertiary employment in Hungary, 1970

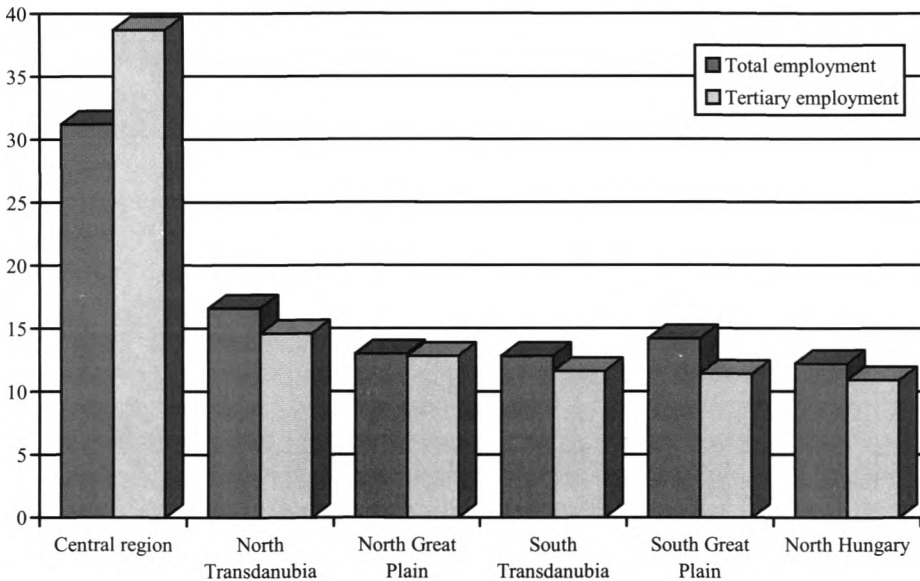


Figure 3

Share of the regions in total employment and in tertiary employment in Hungary, 1980

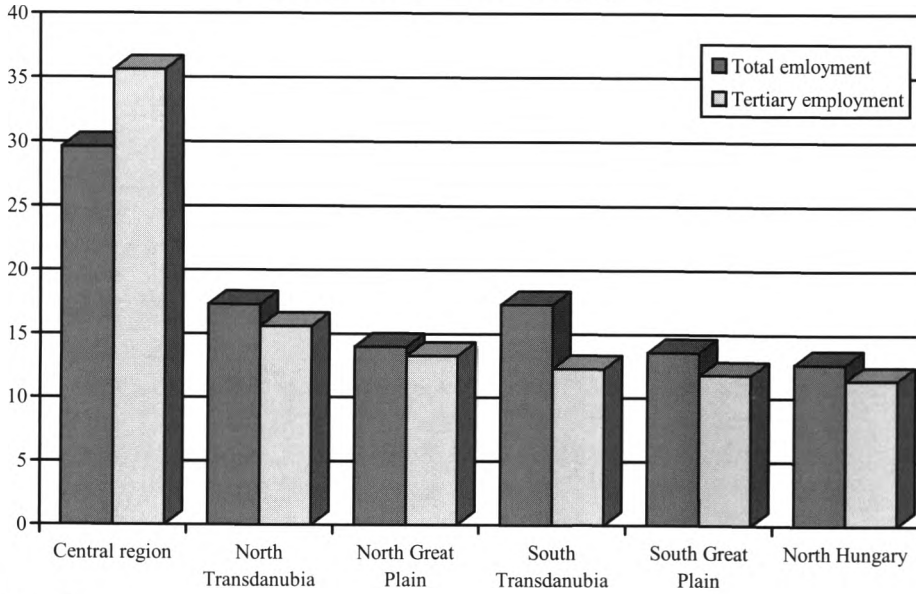


Figure 4

Share of the regions in total employment and in tertiary employment in Hungary, 1990

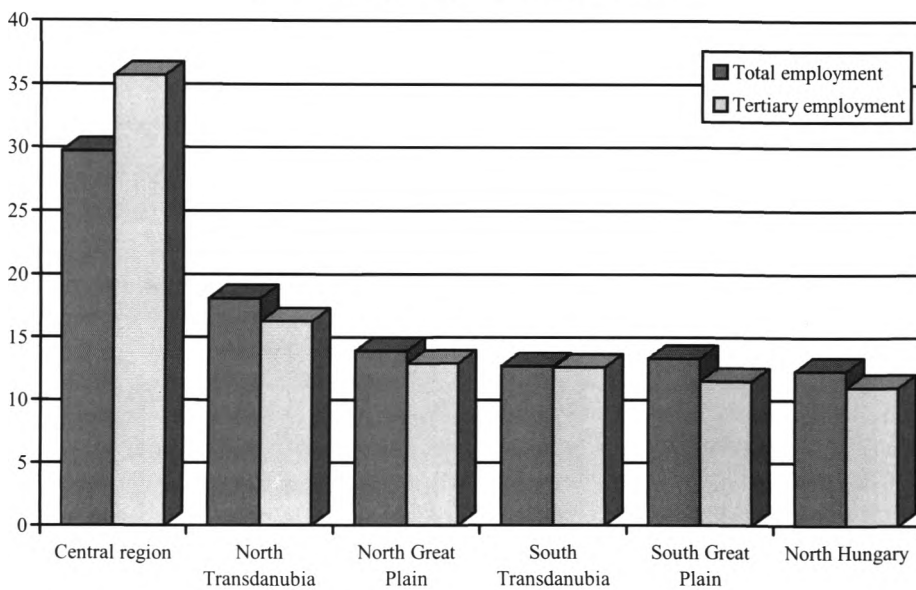


Figure 5

Share of the regions in total employment and in tertiary employment in Hungary, 1995

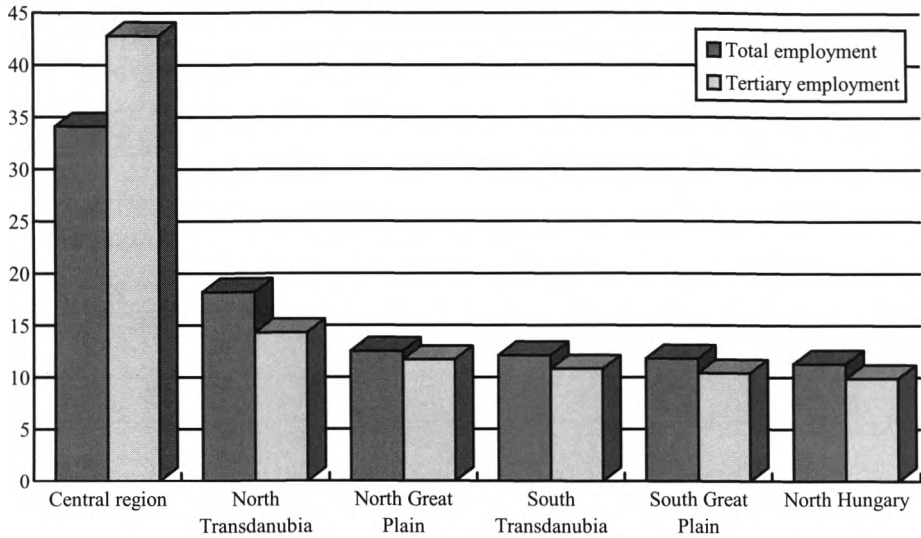


Figure 6

Transition of the share of the regions in total employment in Hungary, 1960–1995 (%)

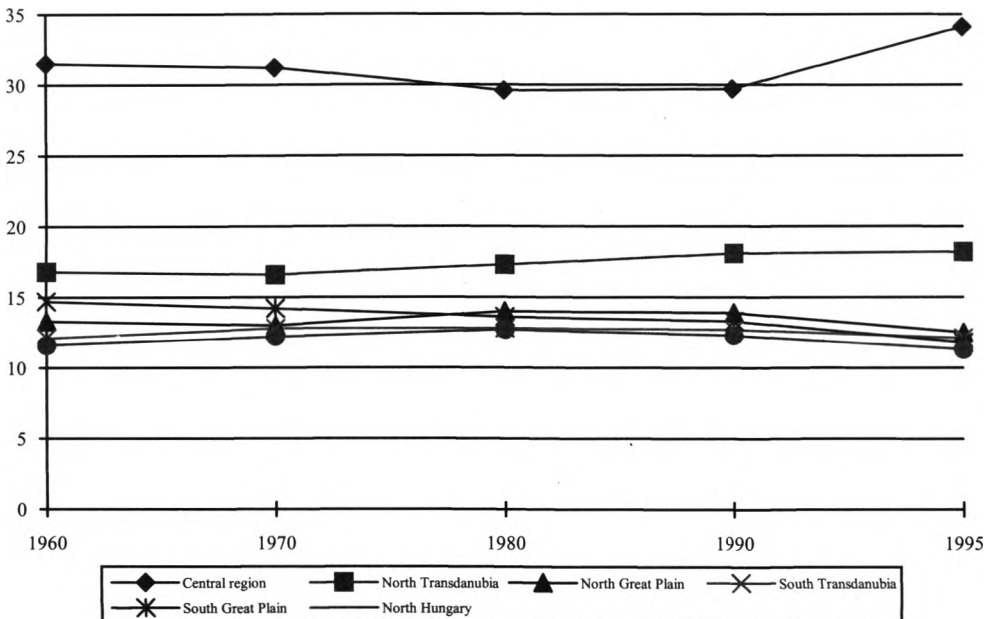


Figure 7

Transition of the share of the regions in tertiary employment in Hungary, 1960–1995 (%)

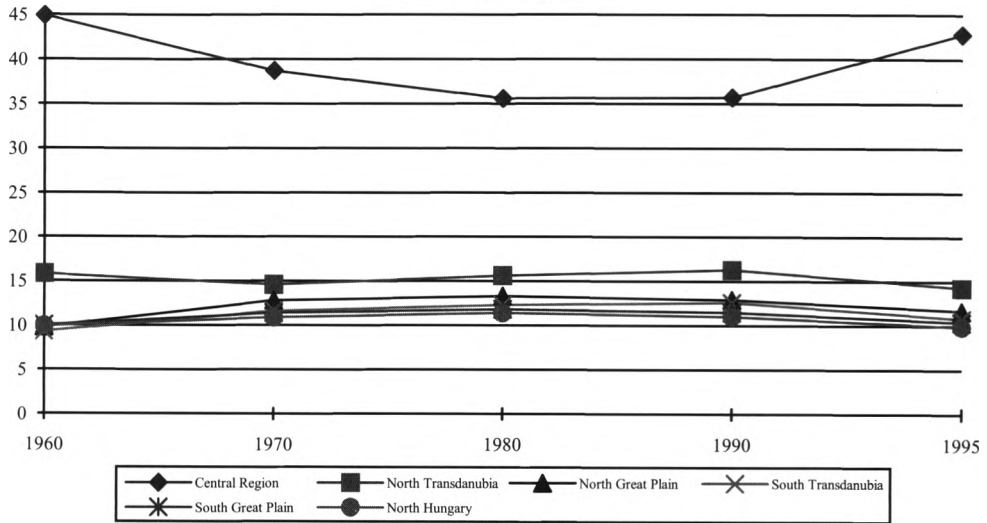


Table 13

Transition of the share of the regions in total employment in Hungary, 1960–1995 (%)

Region	1960	1970	1980	1990	1995	1995/1960. %	1990/1960. %	1995/1990. %
South Transdanubia	12.1	12.8	12.8	12.7	12.1	100.0	104.9	95.3
North Transdanubia	16.8	16.6	17.3	18.1	18.2	108.3	107.7	100.5
South Great Plain	14.7	14.2	13.6	13.3	11.8	80.3	90.5	88.7
North Great Plain	13.3	13.0	14.0	13.9	12.5	94.0	104.5	89.9
North Hungary	11.6	12.2	12.7	12.3	11.3	97.4	106.0	91.8
Central region	31.5	31.2	29.6	29.7	34.1	108.2	94.3	114.8

Source: Yearbooks of censuses. Budapest. Központi Statisztikai Hivatal. 1960, 1970, 1980, 1990.

In *Table 15* and *16*, the regional data of some Western European countries are shown. While in these countries the weight of the central regions gradually decreased and other regions grew, in Hungary a new centralisation started in the field of service in the early 1990s. The tables reveal that neither in the United Kingdom nor in Belgium does the share of the central region exceed 40% of tertiary employees. In the United Kingdom, the Southeast Region had 38% of tertiary employees in 1981, and this figure decreased to 35% by 1991. In Belgium, the dominant region employed 35% of the tertiary employees in 1983 and 34% in 1990. In the strongly centralised France this figure did not reach 30%.

Table 14

Transition of the share of the regions in tertiary employment in Hungary, 1960–1995 (%)

Region	1960	1970	1980	1990	1995	1995/1960, %	1990/1960, %	1995/1990, %
South Transdanubia	9.3	11.6	12.3	12.6	10.8	116.1	135.5	85.7
North Transdanubia	15.8	14.6	15.6	16.3	14.3	90.5	103.2	87.8
South Great Plain	10.3	11.4	11.8	11.5	10.4	101.0	111.6	90.4
North Great Plain	9.8	12.8	13.3	12.9	11.7	119.4	131.6	90.7
North Hungary	9.9	10.9	11.4	11.0	9.9	100.0	111.1	90.0
Central region	44.9	38.7	35.6	35.7	42.8	95.3	79.5	119.9

Source: Yearbooks of censuses. Budapest. Központi Statisztikai Hivatal. 1960, 1970, 1980, 1990.

Table 15

Employees in services in British regions, 1981–1993

Region	1981 (x 1000)	1991 (x 1000)	Growth 1981–1993, %
North	631	740	17
Yorkshire & Humber	1,025	1,259	23
East-Midlands	747	956	28
East-Anglia	408	557	37
Southeast	5,037	5,508	9
Southwest	988	1,262	28
West-Midlands	1,059	1,290	22
Northwest	1,451	1,648	14
Wales	563	671	19
Scotland	1,231	1,431	16
Northern Ireland	326	398	22
Total	13,472	15,718	17

Source: Illeris, S.: The Service Economy. A Geographical Approach, p. 88.

Table 16

Employees in services in Belgian provinces 1983–1990

Region	1983 (x 1000)	1991 (x 1000)	Growth 1983–1990, %
Antwerp	288	350	22
Brabant	632	736	16
Hainaut	185	212	15
Liège	172	194	13
Limburg	91	126	38
Luxemburg	34	42	23
Namur	66	78	19
East Flanders	175	222	27
West Flanders	159	207	30
Total	1,802	2,167	20

Source: Illeris, S.: The Service Economy. A Geographical Approach, p. 89.

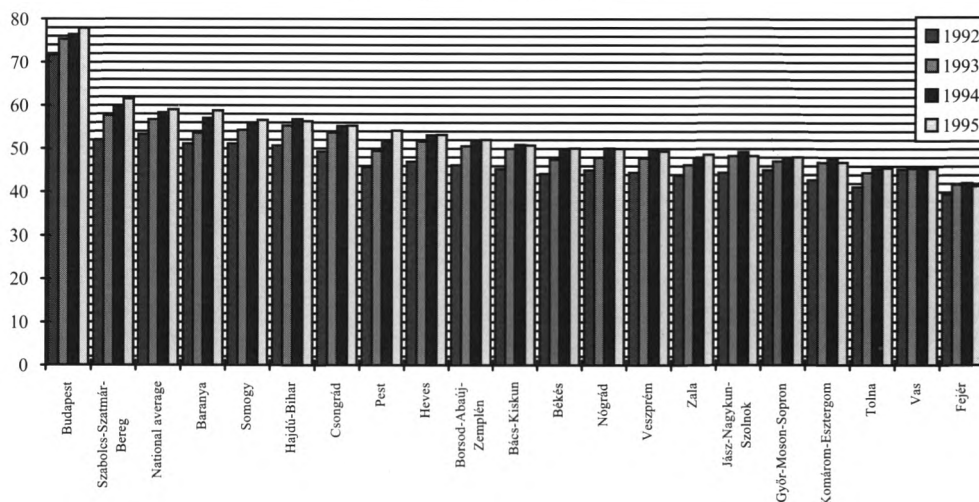
6 The situation of advanced business services in Hungary

6.1 Regional disparities

According to data from the 1990 census, 46.5% of active earners were employed in the tertiary sector. This share grew to 58.3% by 1995. The figures of the different territorial units are quite different, however: in Budapest this share is 76.4%. In all counties (with one exception) it does not reach 60%; in fact, in many counties not even 50% (*Figure 8*).

Figure 8

Development of the share of tertiary employment within total employment in Hungarian counties (%)



Source: County statistical yearbooks. Budapest. Központi Statisztikai Hivatal. 1992, 1993, 1994, 1995

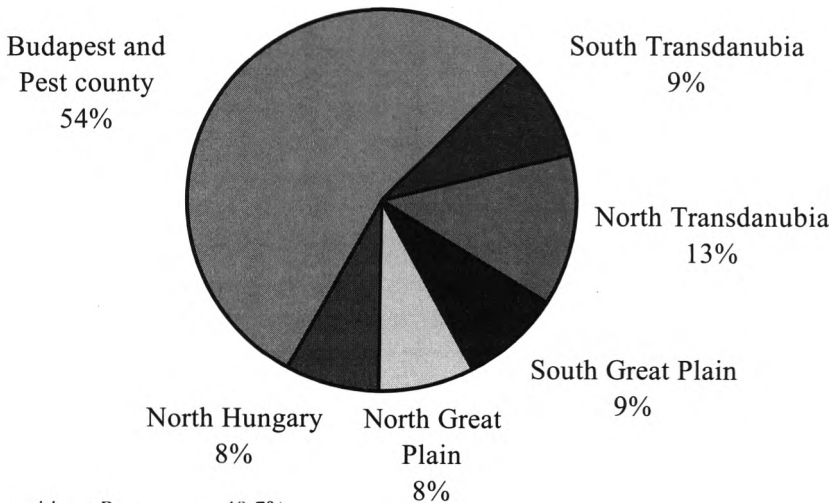
In the field of developed business services, the high proportion of the capital city is even more striking (see *Figure 9* and *10*): in 1995, more than half (55%) of those who worked in advanced business services (in the register of the Central Statistical Office these are encoded with *J, financial activities and the connected services* and *K, real estate, leasing and services promoting economic activities*), were employed in Budapest and Pest county. The share of the North Transdanubian region, which is relatively advanced compared to other Hungarian regions, is only 13%. The other regions have shares lower than 10% (South Transdanubia 9%, South Great Plain 9%, North Great Plain 8%, North Hungary 7%). The situation is similar if we look at administrative services, higher education or R + D. The following chapters will deal with the specific advanced business services of financial services, consultancy services, research and development, and the information technology services.

6.2 Financial services

Internationally, there are two basic types of the practice in financial activities: there are the so-called universal financial institutes and there are independent companies which specialise in a certain field of financial services. In Hungary, this latter type is prevalent. From the wide range of financial services, it is mainly banking, financial services which deserve attention from the aspect of regional development.

Figure 9

Regional distribution of employees in advanced business services in Hungary, 1995



Budapest without Pest county: 49.7%

Source: Statistical yearbooks of the counties. Budapest. Központi Statisztikai Hivatal. 1995.

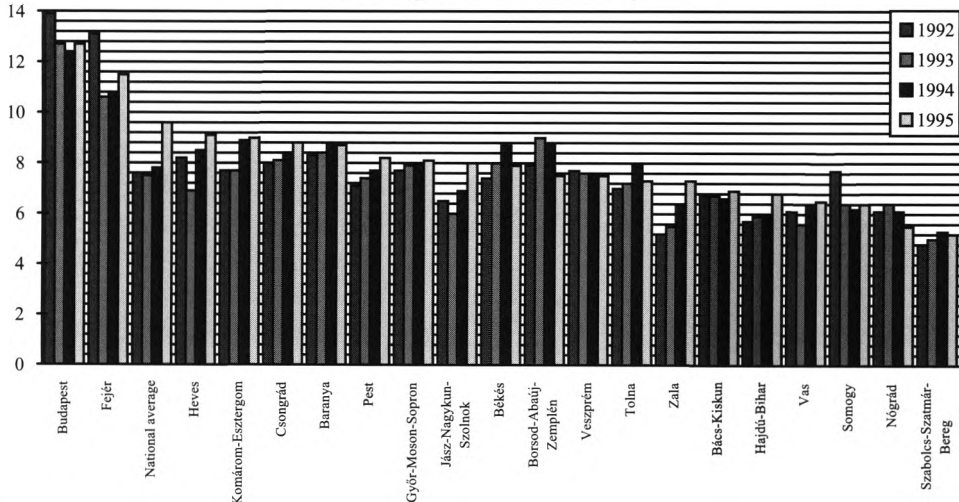
6.3 Banking and financial services

From a legal aspect, the following activities are considered finance institution activities:

- acceptance of clients money as deposit, including savings;
- providing credit and loan;
- carrying out services connected to cash flow, including keeping bank accounts and doing business with bank cards;
- bank guarantee or bank security;
- acceptance of bank custody;
- issue securities which can only be issued by financial institutes;
- mediation of money- and loan affairs;
- sales activities from own or someone else's account in certain cases;
- operation of electronic money transfer systems;

Figure 10

*The share of developed business services in all services
in Hungarian counties (%)*



Source: County statistical yearbooks. Budapest. Központi Statisztikai Hivatal. 1992, 1993, 1994, 1995.

- handling of securities and bonds;
- factoring;
- issuing of bank cards and settling business with them;
- financial leasing;
- services connected to the capital assets, capital supply, also capital consolidation, organisational restructuring and purchase of companies, and consultancy connected to these;
- complex services connected to the implementation of development plans;
- services connected to the assessment and justification of solvency;
- security guarding of valuables, securities;
- money exchange.

Hungarian banks these days are usually only liable to offer financial services and they cannot deal with securities and insurance activities. In the recent Hungarian system of finance institutions, besides the central bank, the following types of finance institutions and organisations are present: trade banks (liable to carry out all activities of finance institutes), specialised finance institutions (with specific activities), investment banks (which can only accept deposits and can keep bank accounts with limitations, but can have more long-term investments than other finance institutes), savings banks (finance institute liable to accept deposits and give credit, mainly for private persons) and finance institutional groups (the total of finance institutions, in which one institution has at least 50% of the shares of the group and has a dominant decisionmaking right) or sub-offices (separate organisa-

tional units carrying out activities which belong to the competence of a finance institution) and bank representatives (lasting representative of a finance institution).

The two-tier bank system, which is typical in market economies, was created in Hungary in 1987, through the establishment of the large trade banks and the revision of the functions of the National Bank of Hungary. As a result of the dynamic development of market actors, the following finance institutions operate now:

- trade banks
- specialised finance institutions
- savings banks
- representatives of banks
- other finance institutions
- persons authorised to carry out some of the financial institution's activities

Some of the financial institutions are foreign owned (Dutch, Austrian, French), some are in foreign majority ownership, there are also trade banks where a proportion of the shares is owned by international finance institutes. However, the large banks are usually still mostly state-owned. A specific sector of the finance institutional system is the savings banks. There are almost 300 independent savings banks, with some 2,000 offices mainly in the country.

Their activities cover the following: acceptance of deposits and savings; providing credits and loans; keeping of bank accounts; sales of securities; purchase of cheques and discount of bill of exchange; money exchange, purchase and sales of foreign currency, etc. Besides these definitely financial activities, in the countryside they offer other services to citizens (collection of public utility fees, guest reception, pledge businesses, etc.). In large areas, these savings banks are the only financial services, alleviating to some extent the uneven spatial distribution of these services throughout the country. Access to banking services is very uneven. One of the main reasons for that is the fact that most banks have no real system of branch offices in the countryside.

The centres of the banks are in Budapest, with one single exception (the Rákóczi Bank has its headquarters in Miskolc). The decisional competence of the countryside offices of the banks is limited, their local decisions have to be approved by a national centre that is not always familiar with the local conditions. This blocks access to businesses for credit and is thus a bottleneck in their operation. Access to credit, instead of alleviating the capital city–countryside dichotomy, often reinforces it.

6.4 Research and development

The economic transition of the recent years has had an unfavourable impact on scientific R + D activity. Resources available for research and development shrank, the number of those employed in R + D decreased, at a fast speed in the

early 1990s, and although the decline has slowed down since then, it has not stopped yet. In 1995, less than 40,000 people worked in research and development, among them just over 20,000 as researchers or developers.

Inputs also show an unfavourable tendency: the proportion of expenditure on R + D from the GDP stabilised at around 1% in 1991–1993, which is very low in international comparison. In 1995, it was even less, as only 0.8% of the gross domestic product was spent on research and development. Recent data (Magyar Hírlap, 16 October 1997) mentioned a 0.61% figure, while a minimum of 1.5 of the GDP would be necessary, according to the chairman of the Hungarian Technical Development Committee.

The situation of Hungary in international comparison, the number of employees in R + D and the inputs spent on research and development can be seen in *Table 17*.

Table 17

Number of R + D employees and share of R + D expenditure in a few selected countries

Country	Year	Number of employees in research and development	Number of scientists and engineers per 10,000 inhabitants	Expenditure in per cent of the gross national product
Belgium	1990	38,773	18.6	1.7
Czech Republic	1992	60,292	32.5	1.8
Denmark	1991	25,756	23.4	1.8
United Kingdom	1990	165,000	n. a.	2.1
Finland	1991	29,574	22.8	2.1
France	1991	298,592	22.7	2.4
Holland	1991	66,710	26.6	1.9
Poland	1992	94,250	10.8	0.9
<i>Hungary</i>	<i>1992</i>	<i>24,192</i>	<i>12.0</i>	<i>1.1</i>
Norway	1991	20,252	31.6	1.9
Italy	1990	144,917	13.7	1.3
Russia	1991	1,495,700	59.3	1.8
Portugal	1990	12,043	5.9	0.6
Spain	1990	49,269	9.6	0.9
Sweden	1991	53,604	30.8	2.9
Slovenia	1992	12,653	29.9	1.5
Japan	1992	910,051	56.8	3.0
China	1992	2,258,048	11.3	0.5
Canada	1991	114,500	23.2	1.6

Source: Magyar Statisztikai Évkönyv. Budapest. Központi Statisztikai Hivatal. 1995.

Looking at the number of research and development organisations, the number of R + D places decreased from 69 in 1990 to 61 in 1995 (i.e. it dropped to 88.4% of the 1990 figure), the research and development places in higher education insti-

tutions increased from 940 to 1,109 (118%), in businesses from 174 to 226 (129.9%), while the number of other research places dropped from 73 to 46 (63%). The total number of the research places increased from 1,256 to 1,442 (114.8%). The majority of research and development sites are still academic institutes, whose operation is financed from the state budget or they are part of the network of agricultural research institutes. The increase in the number of the research sites in higher education came from the re-organisation and splitting of the former units, on the one hand, and on the other hand from the appearance of new institutions providing college or post-graduate training.

The number of research and development sites in businesses has been increasing since the negative record of 1992 (98 places), with an increase in the number of small enterprises involved in data supply. It is worrying, however, that the negative effects of the economic changes are strongest in this sector. According to a survey investigating manufacturing companies and almost 60% of all businesses do not have any R + D activity and do not even buy such services. The economic difficulties are reflected in the numbers of employees, as well. The number of researchers and developers working in R + D places (10,499) is only 59.8% of the 1990 figure (17,550). The "age pyramid" is more and more ageing: the average age of the researchers and developers increased from 38.5 years in 1972 to 44.1 years in 1995.

Looking at the regional distribution of R + D activity, a strong concentration in the capital city can be seen; almost two-thirds of all inputs are realised here. Growth rate is higher in the countryside, however, so the relative weight of Budapest is decreasing (see *Table 18*).

Table 18

Selected regional data for R + D activity in Hungary

Region	Number of research sites	Total number of employees	Number of R+D personnel	Expenditure ^{a)} (In million HUF)
1 9 9 0				
Budapest	616	36,322	19,023	19,533.2
University towns ^{b)}	441	13,739	7,344	5,004.2
Other	199	9,662	3,889	4,081.4
<i>Total</i>	<i>1,256</i>	<i>59,723</i>	<i>30,256</i>	<i>28,618.8</i>
1 9 9 5				
Budapest	624	20,128	11,727	27,494.6
University towns ^{b)}	553	12,304	6,552	8,494.8
Other	265	5,656	2,580	6,572.4
<i>Total</i>	<i>1,442</i>	<i>38,088</i>	<i>20,859</i>	<i>42,561.8</i>

^{a)} Including the expenditure of related activities and other tasks

^{b)} Debrecen, Gödöllő, Keszthely, Miskolc, Pécs, Sopron, Szeged, Veszprém

Source: Tudományos kutatás és kísérleti fejlesztés alakulása 1990–1996. OMF, Budapest, July 1997.

The Budapest-centred nature of R + D activity is expected to weaken in the future, as the participation of the countryside universities in R + D is improving (training of researchers, strengthening of connections between research sites and university studies). The breakdown of the R + D activity by county can be seen on *Figures 11–13*.

6.5 Consulting services

In the broader sense all activities are consulting activities where somebody gives professional advice or information on a certain issue. Consulting activity in the narrower sense means professional expertise and consultancy in any field of life. Consulting activities belong to those business services that are connected to economic activities and business management. The most important consulting activities are:

- economic law;
- general business and management consultancy;
- financial consultancy;
- tax advice and consultancy;
- marketing consultancy;
- production and technical consultancy;
- consultancy related to information services;
- planning and design consultancy;
- consultancy on personnel, human resources development;
- consultancy on work organisation.

Similar to other service activities, consultancy had a boom in the period following the systemic change. Among the many new companies, which were represented in each and every field of consultancy, there are some that are not skilled and competent enough to carry out such an activity, and of course a lot of soldiers of fortune also appeared, causing serious damages to those who used their “services”. This is one of the main reasons why well-known and reputed foreign companies have important roles and opportunities in Hungary.

The main groups of those involved in consulting activity are:

- large, national or multinational consulting companies;
- small and medium size enterprises specialised in one field;
- other consultants;
- consulting divisions of companies with other main profile;
- consulting professors;
- basically non-profit oriented associations and agencies.

The main reasons why external consultants are hired can be the following: legal regulations oblige companies to use such services in some cases; most businesses

Figure 11

Number of R & D places per 100,000 inhabitants, 1995

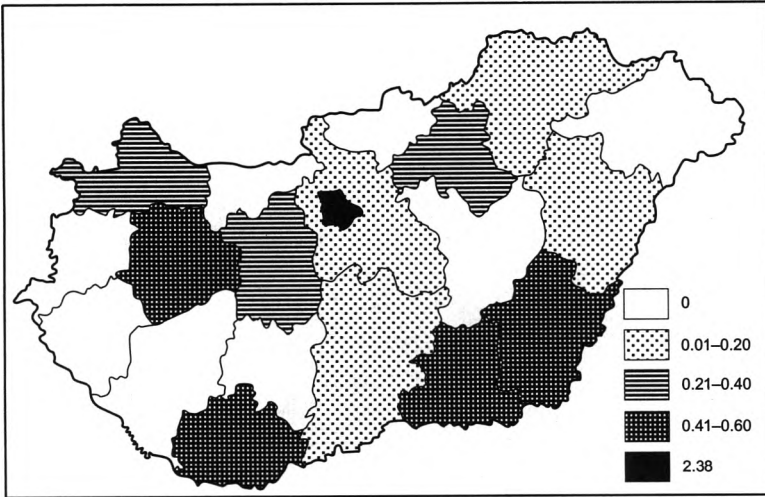


Figure 12

Number of higher education research places per 100,000 inhabitants, 1995

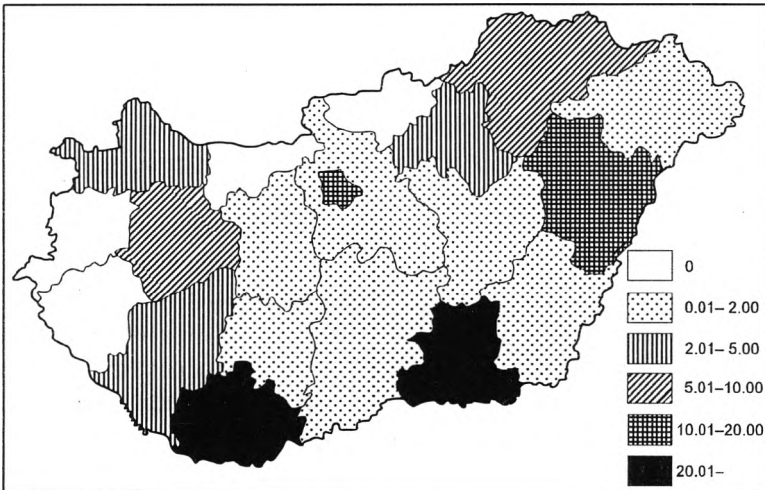
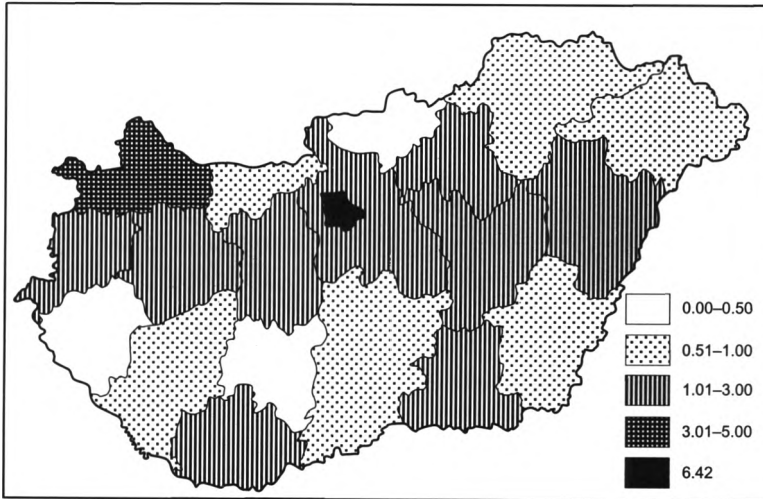


Figure 13

*Number of R & D places in the business sector
per 100,000 inhabitants, 1995*



cannot have capacities for each of their activities; it is more economical to purchase services solving temporary tasks than produce them internally; professional consultants have skills that cannot always be found within the individual businesses; purchasing a consulting activity can save time and give new knowledge to the company; external consultants are independent, not involved in the company, so they tend to be more objective; sometimes it is reasonable to have the company examined by unbiased, objective experts; some external partners may recommend or require the company to hire independent consultants, etc.

6.6 Computing services

The import of large computers to Hungary started in the 1970s, mainly from the ex-state-socialist countries. The target areas were primarily Budapest and the big towns in the countryside. During the 1980s, computers penetrated more and more not only into the business sphere, but in other fields of life as well. The regional distribution of computers became more even and the positions of the countryside improved (the computer capacity increased almost nine-fold from 1985 and 1988, this increase being almost 7.5-fold in Budapest and more than ten-fold in the countryside). The end of the 1980s was the beginning of a new chapter in computer history, when PCs began to take over.

In the early 1990, the spread of computer technology was extremely rapid. The sole innovation centre for the computer sector was Budapest. In the larger countryside towns mainly smaller companies or the branches of the large Budapest enterprises appeared, but they rarely had regional or national importance. In the countryside, computers appeared with a few years of delay and their spatial distribution was uneven. It is extremely difficult to obtain data that show the regional distribution of computers (e.g. the number of computer shops or subscribers to computer magazines). In Rechnitzer's book (1993), there are some (ten-year old) data showing the regional distribution of the subscribers to computer magazines, which clearly demonstrate that besides the central region it was in Transdanubia (mainly the northern and western parts of it) and in North Hungary where the largest number of people subscribed to such magazines (2-3-4 persons per 1000 inhabitants), while in the Great Plain it was mainly only the county seats where a smaller number of people subscribed (maximum 2 per 1000 inhabitants).

7 Summary

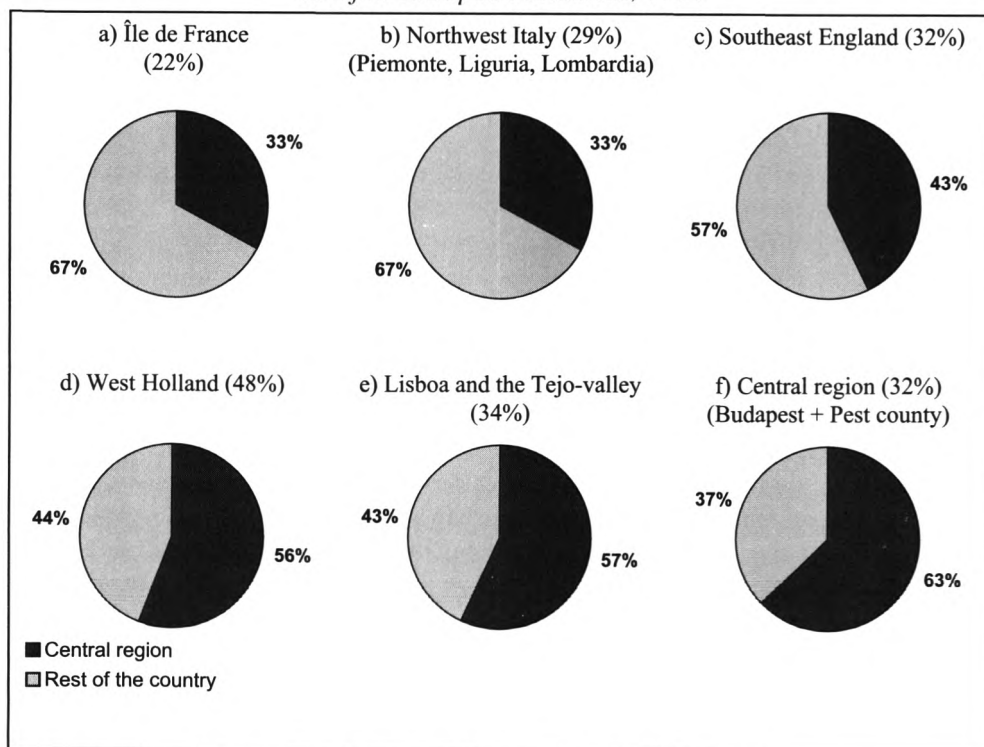
The development of the tertiary sector has accelerated in Hungary in recent decades and its share in employment has approached rates typical of advanced western market economies. This spectacular growth, however, is relative, because:

- the level we had started from was lower than in the above-mentioned countries, thus we could show a “bigger” development that was only the elimination or moderation of our underdevelopment in reality;
- the economic changes of the last few years had a very unfavourable impact on many large agricultural and industrial businesses, so it is the decline in agricultural and industrial employment that makes the increase in tertiary employment so spectacular; it is better to talk about a change of proportions than the birth of a large number of new service providers;
- strategic service sectors that largely determine the economic competitiveness of a region or a country (R + D, computer services, financial and insurance services etc.) grew at a much slower pace than infrastructural services or services provided for the inhabitants. The investments in infrastructure, although they basically determine economic competitiveness, have not always reached their objectives, as the mere existence of the linear infrastructure does not make a region attractive for the external businesses;
- the development of services in Hungary could not decrease the disequilibrium between the regions to a considerable extent. While in many Western European countries the development of services was a means to decrease regional disparities, services, especially business services, are still strongly concentrated in Hungary, especially in the central region and to a smaller extent in North Transdanubia. In the decades before the systemic change, a convergence of the

- regions had started, but after the transition, in market conditions, formerly aided regions (North Hungary, South Transdanubia) got into a crisis which not only affected industry, but service activities as well;
- the over-representation of Budapest in the field of services, especially business services, is extreme, even in comparison with other centralised states (See *Figure 14*;
 - Comparisons with Western European countries are made difficult by the fact that the collection of statistical data on services was not detailed enough in Hungary until recently, unlike in Western Europe, and even now it is lagging behind the collection of data concerning producer activities, e.g. manufacturing.
 - Furthermore, even available data mostly deal with only one aspect of the role of services in the economy, which is its share in employment.

Figure 14

*The share of the central regions from advanced market services
in a few European countries, 1994*



In brackets: Share of the central region from the active earners of the countries.
 Edited by Horváth, Gy. from the Yearbook of Regional Statistics, 1995.

The development of services has not become the means of decreasing regional disparities in Hungary as yet. In order for it to become so, foreign experiences should be more intensively utilised. The consequences drawn from unsuccessful or only partially successful programmes carried out in Hungary, must be scrutinised in order to enable the creation of a more consistent and better planned service development policy.

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FEATURES OF BUSINESSES WITH FOREIGN PARTICIPATION IN HUNGARY

ZOLTÁN PITTI

News on foreign investments, and the operation of foreign capital in Hungary have been a source of interest for many years. There has been a consensus from the outset, that a lack of internal resources can be balanced by foreign investment. However, we did not really expect that increasing the proportion of external ownership would sometimes expand, sometimes tighten the scope for economic policy; nor create new requirements in the process of mutual social understanding.

As an issue this is rather exciting, but there has been less effort towards an objective assessment. At a macroeconomic level, we have fairly accurate information on the magnitude of the capital inflow into Hungary between 1989 and 1996,¹ but the efficiency of operation of such foreign capital, and the impact it has on domestic players in the economy is less known. A progress report is now highly necessary: privatisation is nearing completion, we are making arrangements for negotiations towards EU accession. However, beyond that, everyday political requirements also force us to evaluate, objectively, the operation of foreign capital and its socio-economic repercussions.

Based on financial statements (balance sheets), tax returns, CSO statistics, and data from the Commercial Register for 1996, our study seeks to address the following issues. What is the real importance of foreign capital in the Hungarian economy? What are the general characteristics of the operation of businesses under full foreign control? That of joint ventures? How do the specific features of economic activities of businesses with foreign participation assist, or possibly curb, Hungarian businesses in meeting foreign market requirements.

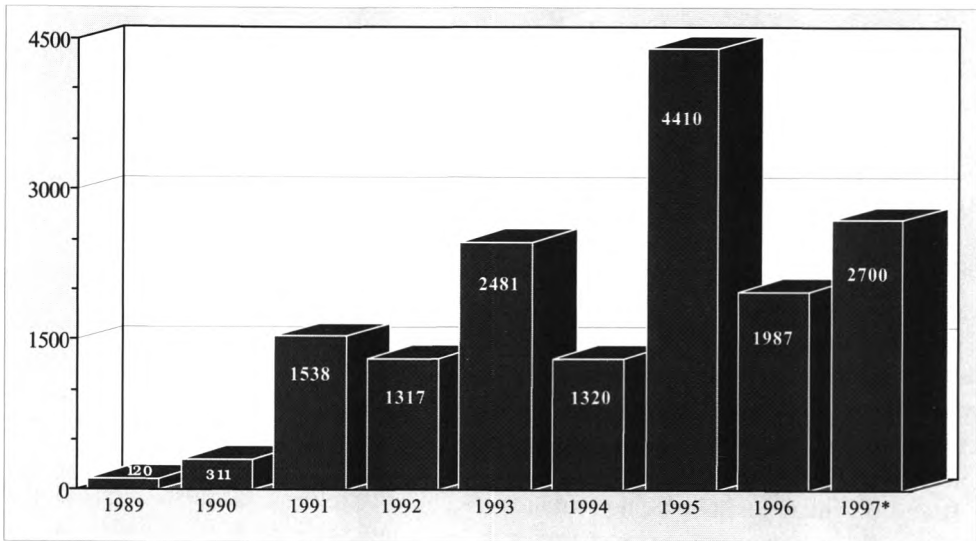
1 General characteristics of businesses with foreign participation

A feature of Hungarian life in the second half of the 1980s and the first half of the 1990s is the economic restructuring of businesses, a dramatic change in the holding structure, and the reshaping of crossborder economic relations. Initially, joint ventures won a foothold through *international treaties*, then as a consequence of *privatisation* (e.g. acquisition of holdings offered for sale), then as a result of *direct investments (capital expenditures) by foreign investors*. Nowadays, ownership

forms have further diversified: on the one hand, there is an increasing number of so-called greenfield investment projects, related to foreign holding groups; and on the other, rather than professional investors, anonymous financial investors are beginning to play an increasingly important role (*Figure 1*).

Figure 1

Annual balance of foreign direct capital investments (FDI) in Hungary, 1989–1997, million USD



* Preliminary data

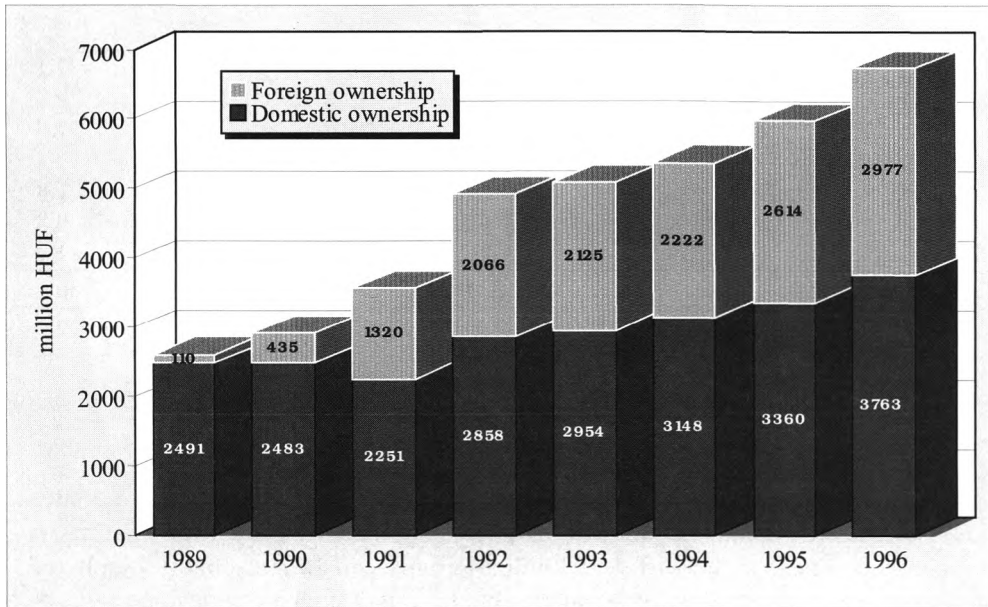
Source: APEH-SZTADI database. (Calculation by author).

The penetration of foreign capital and its operation with improving efficiency is also reflected in the rearrangement of *holding patterns*, changes in business structures, a shift in national economic proportions and regional characteristics; but most importantly, in polarisation of economic output, which is stronger than ever. The following is a discussion of these issues.

a) The *disposal of domestic holdings was not a stated objective* of the privatisation scheme, launched at the end of the 1980s. However, given the lack of liquid domestic purchasing power, it was easy to foresee such a consequence. The expansion of the assets to be offered for sale; and acceleration of the pace of privatisation, were driven, beyond political efforts, by important fiscal interests. Consequently, actions aimed to create domestic demand through so-called ad-hoc lending practices, could not expect much success (*Figure 2*).²

Figure 2

Division of corporations in proportion to company equity and the main ownership groups



Source: APEH-SZTADI database. (Calculation by author).

As fairly shown on the above chart, the proportion of foreign holdings *has doubled* over the period reviewed; in 1996, it almost reached a *32 per cent* share. In a climate of economic globalisation it cannot be considered to be a striking percentage; but it is an extremely high proportion if compared to countries following a path similar to that of Hungary. This is emphasised if one considers the total value of foreign investments which constitute this proportion.

There has been widespread international interest from the outset towards ways of acquiring holdings in Hungary, and as many as 33–35 individual nation-states can be identified behind the effective investment groupings. In terms of the *number of businesses* with foreign participation, the investment ranking is: Germany, China, Austria, the USA, Italy, then the CIS-countries. However, in terms of the *total value* of foreign capital inflow, Germany, Austria, the USA, the Netherlands, France, Belgium, Switzerland, then Cyprus and the CIS-countries rank as the major foreign proprietors, mobilising the biggest capital.

The existence, and increasing economic involvement, of *joint ventures* are a new phenomenon. According to the domestic reporting and data processing schemes,³ businesses with foreign participation (meaning all businesses with effective foreign proprietors, registered in the Commercial Register) can be classified into the following holding groups:

Table 1

*Characteristic indicators of the holding structure,
developed as a result of restructuring, %*

Denomination	1993	1994	1995	1996
Domestic individuals, and entities	26.1	29.4	32.1	32.1
Public holdings	48.4	40.4	29.6	22.4
<i>Foreign holdings</i>	<i>16.1</i>	<i>18.9</i>	<i>28.4</i>	<i>31.5</i>
Municipal holdings	5.8	6.6	5.9	10.1
Co-operative holdings	2.6	2.6	2.0	1.8
MBO holdings	0.3	0.9	0.9	0.8
Miscellaneous holdings	0.7	1.2	1.0	1.2
Total issued capital	100.0	100.0	100.0	100.0

- businesses operating with a foreign holding share exceeding 50%,
- businesses operating with a foreign holding share between 25–50%,
- businesses operating with a foreign holding share not exceeding 25%.

The reporting and data processing schemes apply a *similar rationale* to domestic businesses (companies under full, majority and minority Hungarian control), so the characteristics of the different holding-groups can be reasonably compared, and serve as a basis for drawing realistic conclusions.⁴ Such a conclusion might be, for instance, the acceleration of the shift in proprietary proportions within so-called joint ventures. Whilst within this group the ratio of Hungarian and foreign holding was 36:64 according to 1995 indices, during 1996 it fell to 29:71, implying a decreasing role of domestic capital.

b) While we have fairly accurate data on foreign investments (country of origin, volume of capital, national economy sector, regional distribution, etc.), it is hardly known *what interests* these investments actually cover. Our empirical figures and reviews made of this issue show that the foreign investor community is in a restructuring process. During the period 1990–1993, the capital with direct *public holding and public interest*, and *private capital* with corporate and individual holding participation, had a proportionate share in foreign investments. In foreign investments between 1992 and 1994 however, *professional investors* had a predominant share, while portfolio investors played a marginal role.⁵ In 1995–1996 there was a substantial turnaround, with both the *economic involvement* and holding shares of *financial investors having increased*.⁶

c) Figures of holding characteristics⁷ of businesses with foreign participation, by national economy sector, show that the proportion of foreign holdings *exceeds the national average* in the telecommunication services (62.8%), the processing industry (50.9%), commerce (36.0%), the real estate affairs, and the financial service sector (43.7%). On the other hand, the holding share is *below the average*

in power generation (21.4%), agriculture (6.2%) and transportation (4.6%).⁸ We are aware that proportions themselves reveal little, however changes over time deserve attention. The development of the present structure might be due to the fact that, while in the previous investment cycle, foreign entrepreneurs preferred commerce and supply (selling service activities), areas with a lower capital requirement and ensuring a ROI faster than industry, nowadays there is an increased interest in the manufacturing sector (particularly the processing industry) which attracts the majority of investment.

Table 2

Distribution, by holding structure, of businesses under the laws of corporate taxation

Holding share	1994		1995		1996	
	unit	%	unit	%	unit	%
100% domestic	168,300	90.5	174,643	89.4	197,830	88.5
Foreign over 50%	13,250	6.9	14,964	7.7	18,984	8.5
Foreign between 25–50%	3,325	1.9	4,148	2.1	5,032	2.3
Foreign not exceeding 25%	941	0.6	1,488	0.8	1,729	0.8
Public over 50%	49,750	26.8	67,583	34.6	89,541	40.0
Domestic over 50%	101,330	54.5	120,739	61.8	158,653	71.0
Altogether*	185,901	100.0	195,244	100.0	223,575	100.0

* Subtotals of the chart not to be directly added, they might overlap

d) The appearance of foreign stakeholders stimulated the development of business forms, and, beyond the legal requirements, economic realities also *assisted the business forms*. Quantitatively, as many as 26 thousand “joint ventures” show that *private limited companies* (korlátolt felelősségű társaságok), with less equity requirement and ensuring a more flexible operation, take precedence among the possible business structures (39.9%). This is followed by *public limited companies* (részvénytársaságok) with a substantial gap (1.2%); and business entities operating as *companies* at the time of the review. (Other business forms, such as limited partnerships, co-operatives and non-profit legal entities are not characteristic of foreign investors.) Beyond business structures, the Company Act also identifies foreign investors and foreign agencies operating in Hungary *by domicile*. Initially their number was reasonably high, then decreased progressively. Pursuant to their activities in 1996, 165 complied with the reporting liability, imposed exclusively on this group.

The completion of the restructuring process and the *stabilisation* of business forms are indicated by the fact that 63.3 per cent have already undergone the proce-

ture of incorporation. Thus they operated with structures unchanged in 1995 and 1996. *Relativeness* is indicated by the fact that 12.7 per cent (3,720 businesses) were incorporated only during 1995, and a further 24 per cent (4,088 businesses) was established (reorganised) during 1996.

We have to realise that the quantitative expansion and legal reorganisation of joint ventures in 1995–1996 was due to *seeking the most suitable legal forms*. This also means simultaneously optimising process control, and flexible exploitation of the competitive edge offered by the economic background. A new phenomenon – and it should be noted – is the extensive efforts for amalgamation of businesses with foreign participants. No doubt such a process of merger also contributes to the fact that the average number of employees is twice, and the average value of “joint venture” businesses is three times, the average figure of domestic partnership businesses.

e) *Regional characteristics* of businesses with foreign participation show, if possible, even greater disparities than domestic businesses.⁹ There are several approaches to evaluating the regional characteristics. One potential viewpoint could be the approach by *economic terms* (counties, settlements), but the polarisation by *territories* (major regions) also deserves attention (*Figure 3*).

The *number of businesses* – ignoring the dominance of the capital – show a value above the average in Csongrád, Pest, Győr-Moson-Sopron, Bács-Kiskun and Zala counties. The *value of the issued capital* of joint ventures is high in Pest, Győr-Moson-Sopron and Hajdú-Bihar counties, however it is followed after a substantial gap by Csongrád, Borsod-Abaúj-Zemplén and Baranya counties.

Table 3

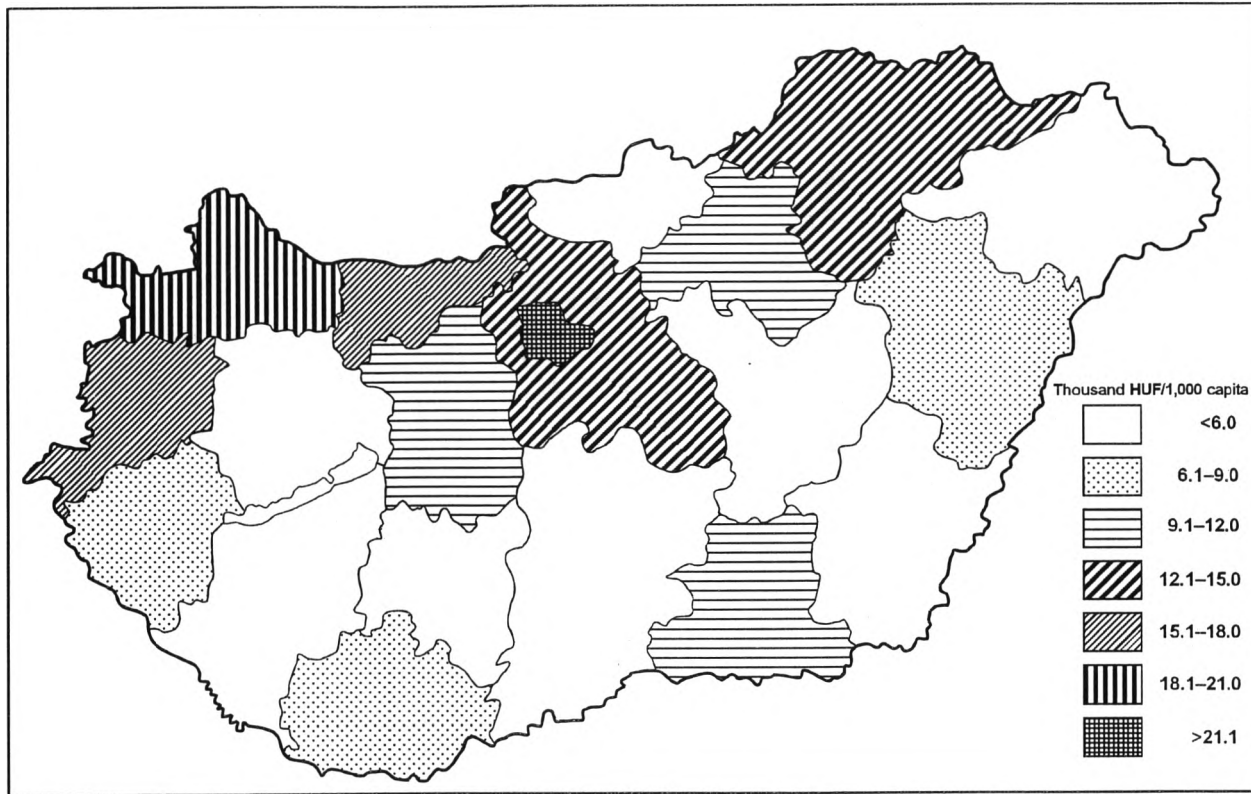
Distribution of businesses by settlement categories, 1996

Business forms	Number of partnership businesses	S h a r e o f				Altogether
		Capital	County seats	Other cities	Communities	
Public limited companies	1,860	73.3	17.5	8.6	0.6	100.0
Private limited companies	19,320	63.5	24.7	10.7	1.1	100.0
Limited partnerships	1,982	52.1	28.5	16.3	3.1	100.0
Co-operatives	3	66.7	33.3	0.0	0.0	100.0
Companies*	33	55.2	34.6	10.2	0.0	100.0
Miscellaneous entity forms	2,547	43.9	29.5	25.7	0.9	100.0
Total businesses	25,745	66.8	21.9	10.1	1.2	100.0

* As of December 31, 1996, businesses incorporated on January 1, 1997 are stated under the group of companies

Figure 3

Subscribed capital in foreign ownership per 1000 inhabitants in the counties, July 1997



Substantial regional variations are determined by *historical traditions* (as a result of privatisation – by way of decentralising former large enterprises – a large number of new businesses could only emerge where an economy existed with operating and mobilisable assets). But regional variations have been further polarised by the differentiating effects of “*greenfield investments*”, since investors were only interested in areas where infrastructure and qualified labour existed, and where conditions of production Cupertino were available. The consequence of the former is that major concentrations of business entities operate in the capital and its suburbs, the Western and Eastern counties of the country, and in some regions along the Danube.

2 Changes in proceeds of businesses with foreign participation

Net sales revenues of total domestic businesses, operating under the laws of corporate taxation, have increased from HUF 11.8 billion of last year to HUF 14.9 billion in 1996. Almost all branches of the national economy have contributed to this 26.2 per cent performance increase, though there is no doubt that there is a substantial variance in these improvements.

In terms of *percentage and absolute ratios* of the increase, commerce, catering, and the industrial sector play the leading roles (in relation to the former a surplus of HUF 979 billion, and in relation to the latter a surplus of 1.1 billion represent a 25.2% and 27.7% increase, respectively). When reviewing *percentage ratios*, the leading role is played by transport and telecommunication businesses (30.2%), miscellaneous service activities (28.8%), and rural activities (23.2%). Reviewing the changes in performances in *absolute terms*, the food industry (HUF 200 billion), the construction industry (HUF 129 billion), and the financial service activities (HUF 99 billion) are worth mentioning.

The trend of the economic indicators of *businesses with foreign participation* in 1995–1996 coincided with that of the country: however the rate of performance expansion is much faster in this sector. So, the increase of *net sales revenues* is 35.2 per cent, including *export sales* – traditionally having a high proportion – showing an increase of 39.4 per cent.

Aggregated figures show that the output of joint ventures is higher in each sector of the national economy than the national average. But the change in sales revenues is especially striking in the financial services (53.2%): specifically, in miscellaneous service activities (46.5%), agriculture (43.6%), telecommunications and the industrial sector. Differences in growth rates necessarily imply a dramatic reshaping of the market presence and the economic importance of joint ventures.

Figures in the chart suggest that market performances of businesses with foreign participation represent a major driving force *in the development of the economic performance of the country*. On analysis we might also formulate that this driving force could be even greater, if domestic businesses would follow the example of joint ventures for "suppliers" (e.g. future deliveries, production volumes, quality standards, market prices). Businesses with foreign participation are characterised by following, simultaneously, both the opportunities on the *domestic market* and on the *international market*. (The performance-increase in Hungary is 33.9 per cent, while on the international markets it is 39.4 per cent.) Possibly more important than the growth rate is that an increasing proportion of sales revenues of businesses with foreign participation (in 1996 almost one third) is realised on international markets. This could be a formula for success following the recovery of the Hungarian economy.

Table 4

Characteristics by major holding groups of net sales revenues of businesses under the laws on corporate taxation in 1996

Holding share of companies	1994		1995		1996	
	billion HUF	%	billion HUF	%	billion HUF	%
100% domestic	5,323.4	59.1	6,869.5	58.4	8,228.5	55.4
Foreign over 50%	2,477.1	27.5	3,394.7	28.8	4,650.8	31.3
Foreign between 25–50%	909.8	10.1	1,248.1	10.6	1,674.4	11.3
Foreign not exceeding 25%	64.5	0.7	260.3	2.2	305.9	2.1
Public over 50%	999.8	11.1	1,256.6	10.7	1,550.0	10.4
Domestic over 50%	2,513.1	27.9	3,318.5	28.2	4,498.5	30.3
Altogether*	9,007.5	100.0	11,772.9	100.0	14,859.6	100.0

* Subtotals of the chart not to be directly added, they might overlap

By comparing the total of net sales revenues and export revenues, it is possible to derive the changes in *domestic sales* in 1996. Figures show that domestic sales have fallen behind the total output (25.8 per cent). In the expansion of domestic sales, *domestic businesses* and *joint ventures* represent a 60 per cent and a 40 per cent share, respectively. (However, in relation to export output, the proportion is reversed.) In another respect it proves that while businesses with foreign participation have also acquired markets through their investments, it is more characteristic that they have created an external market potential for the products of the Hungarian economy.

There has been no material change in the *miscellaneous revenues* of businesses, compared to the excessive increases of previous periods (what is more, a 2.7 per cent decrease can be disclosed). Thus revenues have been substantially depreciated, as confirmed by the proportion of net sales revenues. The process is basically favourable, since it reflects that the development of the total output of businesses

(particularly in the case of joint ventures) is determined by the dominance and efficiency of the core business.

On average, sales revenue ratios of businesses for 1996 *confirm former news on economic expansion*. In this expansion – particularly in the development of export output – businesses with foreign participation, having a solid manufacturing background and good market contacts, have a determining role.

3 Cost management practices of businesses with foreign participation

In terms of cost accounting, the development of the *dynamics of costs*, and on the other hand, the *structural pattern* of major cost elements, deserve attention. Financial data for 1996 suggest, that – depending on holding structures and scope of activities – there is a perceivable, and by statistical practices, also verifiable, difference in the practice of cost management.

Comparisons of costs and revenues, figures of financial statements and tax returns for 1996, show that the practice of cost management has *taken a favourable course*. There is a 23.7 per cent increase in costs and expenditures, which – as opposed to previous years – *fall behind the growth rates of sales revenues* (26.2 per cent). But this favourable change conceals a change of cost structures, adverse in many respects (e.g. increasing import requirements for economic output, including exports).

In order to ensure a reasonable evaluation of change, we must not avoid the examination of major cost categories. The dynamic increase of material-related expenditures; depreciation, accounted-for costs and other costs is a *general practice*. The relative decrease of personnel-related expenditures (including incomes) is a *prevailing trend*, and the decrease of miscellaneous expenditures – previously considered to be excessive – *applies only in limited measure*.

Table 5

Changes in structural patterns of major cost categories

Denomination	(in percentage unit)			
	Total businesses		Businesses with foreign participation	
	1995	1996	1995	1996
Material related expenditures	68.7	70.1	77.2	75.2
Personnel related expenditures	12.2	11.5	9.5	9.6
Depreciation	3.5	3.6	4.3	4.3
Miscellaneous costs	7.5	7.6	5.3	6.3
Miscellaneous expenditures	8.1	7.2	3.8	4.5
Altogether	100.0	100.0	100.0	100.0

The change in the proportion of *material-related expenditures* is partly due to subcontractor fees, partly to cost of goods sold. (It is hardly an overstatement to assume, that – beyond the expansion of production-processes and technological contacts – the function of adjusting the professional tax-base might have also contributed to.) Direct material-costs – despite a moderate increase in absolute terms – show a remarkable proportional decrease; this refers implicitly to the changes in added value, differing from the average. (The cited change of the material content – e.g. in the case of foreigners – might be attributable to the dynamic increase in raw materials and semi-finished products imported for “processing” purposes.

The *development of personnel-related expenditures* (despite a 16.6 per cent increase in absolute terms) is extremely controversial. While a moderate increase of wage-related payments can be observed in relation to *domestic businesses* as a whole, paid incomes have increased both in absolute and relative terms in *businesses with foreign participation*. Considering that the differentiation of personnel expenditures is a very delicate issue, it must be noted that the incomes higher than average are performance-based, and it would be a mistake to base (faulty) conclusions on this.

The value of the accounted *depreciation*, and the development (a 29.1 per cent increase) of expenditures to substitute the assets written off, indicate a welcome new course. This implicitly reflects that businesses pay more attention than before to avoiding value-loss, and also a scheduled improvement of technical standards. Despite all this, businesses with foreign participation are more conscious in formulating their amortisation policies. Also, in line with the development of their economic performance, they exercise widely the option of accelerated write-off. Differing shares of depreciation – see the chart above – can also be attributed to this.

A specific element of the increase of expenditures is the development of *lending rates*, including interest charges on *short term borrowings*. An increase of costs exceeding 25 per cent indicates that the majority of businesses continue to be unable to fund their operations, other than *by raising loans*. (It is striking that those businesses with foreign participation have the highest short term loans.)

Reviewing *sectoral specifics of cost management*, the increase of costs and expenditures shows the highest rate in *industry* (37.8 per cent), followed by the *processing industry* (37.2 per cent), the *food industry* (31.1 per cent), and the *transportation-post and telecommunication* industries. However, the increase of costs and expenditures fall behind the increase of average sales revenue values in the *rural, forestry and game husbandry* industries (24.7%), the *accommodation-service and catering* industries (22.5 per cent), and the *construction industry* (22.5 per cent).¹⁰

Reviewing the development of cost-management by *holding characteristics*, it can be stated that figures do not confirm the view, often cited by experts, that businesses with foreign participation prefer to follow the practice of cost-transfer, thereby “hiding” their profit-withdrawal transactions by performance rearrangements.¹¹ There are two important factors for consideration against these views:

- *on the one hand*, net sales revenues of businesses with foreign participation were 35.2 per cent up (with their export output 39.4 per cent up), with the total cost and expenditures of their production falling (3.8 per cent);
- *on the other hand*, it can be fairly assumed that they follow widely the practice of “re-billing” of some kind of sales revenue, from a country with a lower tax burden to a country with a higher tax burden. (It is more certain that domestic tax assessment is extremely advantageous even in a European context.)

Obviously, a real evaluation of the practice of cost-management can only be based on figures over a longer period. Unfortunately, the relatively favourable figures for 1996 cannot make us forget the rapid increase of costs which characterised previous years. Similarly, it would be a mistake to ignore the increase of import requirements for domestic production. (Preliminary figures for 1996 suggest that the the growth rate of imports designed for production was identical to – sometimes higher than – that of the change in exports.) If this disadvantageous situation cannot be reversed, we would have to face the fact that our export capabilities will only slightly improve – despite increasing output – and, as a result, the international balance of payments of the country will not improve, but deteriorate.

4 Earnings from the operations of businesses with foreign participation

Accounting standards provide *several tools to monitor* the changes in earnings, and there are many ratios available for the presentation of provisional results. *Major types* include: operating (trading) income; earnings from financial operations; business earnings; extraordinary profit; profit before taxation; profit after taxation, and finally, as a summary of the findings, the balance sheet profit figure.

Knowing the specific features of 1996, our review presents *three earning categories* in detail, that is the development of the business earnings, the profit before taxation, and the profit after taxation.

a) The *business profit* is an important accounting term (reflecting evenly the development of performance directly related to the business). On the other hand, due to its mass, it can determine the development of total earnings of the business. Figures for business profits in 1996 were generated as a result of a 32.4 per cent increase of (54 thousand) profit-making businesses, and a mere 11.2 per cent change in the losses of the (47 thousand) loss-making businesses, as a reasonable balance.

The recovery of the economy suggests on one hand that the volume of the operating (trading) profit has – over a relatively short period – more than doubled. On the other hand, the fact that the number of profit-making businesses also increased is subject to separate review.

Beyond overall positive changes, there is a special phenomenon, that earnings for 1996 *show substantial variations*. Variations in performances can be detected according to the holding-status of businesses (see chart), but some variations can also be detected by reference to the national economy nomenclature of the basic business activities.

Reviewing *sectoral characteristics of profit making businesses*, the improvement of the operating profits are extremely high in the tobacco industry (4,792 per cent!), telecommunications (72.5 per cent), real estate brokerage (65.6 per cent), and the commercial sector (50.4 per cent). The earnings of rural industries, power generation, and tourism substantially fell below the average. Among *sectoral characteristics of loss-making businesses*, the development of the operating profits of rural industries, transportation, metallurgy and financial services deserve attention.

Table 6

Balance of the operating earnings of profit making and loss making businesses in 1996

Holding share of companies	1994		1995		1996	
	billion HUF	%	billion HUF	%	billion HUF	%
100% domestic	-14.6	...	101.5	88.4	151.6	58.4
Foreign over 50%	18.0	20.2	51.3	44.7	139.3	53.7
Foreign between 25-50%	26.4	29.6	44.7	38.9	65.6	25.3
Foreign note exceeding 25%	-80.4	...	108.7	94.7	-97.8	-37.7
Public over 50%	-62.6	...	-15.4	-13.4	-49.1	-18.9
Domestic over 50%	1.1	1.2	129.9	113.1	169.2	65.2
Altogether*	89.2	100.0	114.8	100.0	259.5	100.0

b) *The profit before taxation* of (as many as 14 thousand) businesses with foreign participation is HUF 481 billion, which is 53 per cent higher than last year. The *loss before taxation* of (as many as 6 thousand) businesses is HUF 206 billion, a mere 15.3 per cent more than the previous year.

The result of changes, polarising in their rate but showing improvement in their trend, is that the consolidated balance of profits before taxation of businesses representing joint proprietary interests in 1996 was HUF 275 billion (that is 70.2 per cent of the profits of the total businesses). This is – much to our pleasure – more, than twice that of the previous year.

The increase in profits before taxation *was very dynamic* in the transportation and post-and-telecommunication industries (the increase was 1,199 per cent, and 223 per cent by sector, maintaining double entry bookkeeping, and single entry bookkeeping, respectively), in the industrial sector (1,064 per cent, and 163 per cent), and the rural-forestry and game husbandry sectors (430 per cent). The sur-

prisingly high growth rate shows even higher variations when reviewing the individual sub-sectors, or particularly, the situation of the individual corporate groupings. The change in profits before taxation of the transportation sector is extremely striking (the increase is 686 per cent maintaining double entry accounting, and 241 per cent maintaining single entry bookkeeping).

Table 7

Balance of the profit/loss before taxation of profit-making and loss-making businesses in 1996

Holding share of companies	1995		1996		1996/95 change
	million HUF	%	million HUF	%	
100% domestic	60,043	30.7	117,069	29.9	195.0
Foreign over 50%	92,067	47.1	197,655	50.5	214.7
Foreign between 25–50%	23,884	12.2	52,289	13.4	218.9
Foreign note exceeding 25%	19,344	9.9	24,652	6.3	127.4
Public over 50%	–11,164	–5.7	–48,214	–12.3	–431.9
Domestic over 50%	109,923	56.2	167,338	42.7	152.2
Altogether*	195,452	100.0	391,665	100.0	200.4

According to legal provisions, the profit before taxation is basically influenced by the possibility of applying entries which both *increase profits* and *decrease profits*. Its general characteristics, and the characteristics for businesses with foreign participation, are almost identical, though the economic implications of the individually-adjusted entries have a different relevance. Thus it is a general feature that the value of entries *decreasing* the profit before taxation is HUF 100 billion higher; their total volume increases at a faster rate than the value of entries *increasing* the profit before taxation. A variation to be attributed to the different economic policies of management is that among decreasing entries, *profits are higher than the average of businesses with foreign participation*:

- depreciation recognised in accordance with the act on taxation,
- the loss for the tax year of losses carried forward from previous years
- the provisions from the previous year, accounted in the tax year for miscellaneous income, and the amount recognised in the tax year,
- the amount of dividends and quotas received, and
- the refunded corporate tax.

The special status of businesses with foreign participation is also reflected by the development of *entries increasing* the profit before taxation, such as depreciation, accounted, pursuant to the act on accounting, costs, the amount of loss of worth, accounted-for expenditures, and expenditures not directly related to the (income generating) business activities.

c) In the context of our topic, it might be more exciting to review the *position* of businesses *after taxation*, and the business “profit measured in Forints”. In relation to businesses with foreign participation, it is to be considered, whether on one hand this profit will remain in the country or flow out; and on the other hand, whether the profit will be paid out as dividends, or reinvested by the owners to the benefit of the country.

The *profit after taxation* for 1996 of partnership businesses can be evaluated in the knowledge of the *profit after taxation* of HUF 772.6 billion of businesses with surplus figures, and “*loss after taxation*” of HUF 511 billion of businesses with deficits. The “calculated balance” derived by balancing surpluses and deficits shows that the profit after taxation of businesses has more than doubled from HUF 99.4 billion in 1995, and represent a profit of HUF 261.1 billion.¹² (We must not conceal the fact that 85 per cent of the profit after taxation was realised by businesses with foreign participation.)

Table 8

The balance of the profit/loss after taxation of profit and loss making businesses in 1995–96

Holding share of companies	1995		1996		1996/95 change
	million HUF	%	million HUF	%	
100% domestic	2,680	2.7	39,244	15.0	1,464.3
Foreign over 50%	64,502	64.9	161,231	61.8	250.0
Foreign between 25–50%	18,246	18.4	42,254	16.2	231.6
Foreign note exceeding 25%	14,919	15.0	18,362	7.0	123.1
Public over 50%	-16,489	-17.0	-38,675	14.8	-229.5
Domestic over 50%	76,556	77.0	116,183	44.5	151.8
Altogether*	99,362	100.0	261,091	100.0	262.8

* Subtotals of the chart not to be directly added, they might overlap.

The improvement in business earnings in 1996 – both on the average and in the case of businesses with foreign participation – has created both the principal basis and the financial coverage of paying dividends and quotas higher than that of previous years. Figures suggest that while the consolidated profits after taxation of businesses have raised more than two and a half times, the value of dividends and quotas paid by businesses with surplus figures has increased by merely half as much.

Dividend and quota payments, “moderate” by reference to economic potentials, can only be really construed when evaluating the total value of dividend payments in 1996, together with considering the adjusting conditions. So, a part of the dividend accounted for and paid in 1996 is related to the profits of 1995. On the other hand, higher dividends can be detected where performances are also above the average, but a differing practice applied for personnel emoluments should also be considered (see requirements of success-fee manager contracts that can be translated into Forints).

Table 9

Dividends and quotas paid by businesses operating subject to corporate taxation

Holding share of companies	1995		1996		1996/95 change in value
	million HUF	%	million HUF	%	
100% domestic	44,168	36.4	57,139	27.4	129.4
Foreign over 50%	73,223	60.3	121,844	58.4	166.4
Foreign between 25–50%	10,557	8.7	21,750	10.4	206.0
Foreign note exceeding 25%	14,475	11.9	16,154	7.7	111.6
Public over 50%	4,804	4.0	9,661	4.6	201.1
Domestic over 50%	29,600	24.4	44,295	21.2	149.6
Altogether*	121,422	100.0	208,523	100.0	171.7

The balance sheet profit figures of the businesses can be determined by dividend payment. A *balance sheet profit figure* of HUF 49.1 billion, as recognised at a national economy level, can be determined as a balance of a *loss* of HUF 452.5 billion of business with a deficit, and a *profit* of HUF 534.8 billion of businesses with surplus figures. The increase in the number of profit-making businesses, and the favourable change in the total profits – substantially exceeding the total losses occurring at the same time – is the result of an economic upturn following 1994, and confirmation of the recovery.

The strength of this upturn is lessened by the fact that the total value of the *accumulated losses (carried forward)* during the period of the economic recession has not decreased, but further increased, by the amount of new losses carried forward pursuant to the “earnings” in 1996. Balance sheets for 1996 represent a total carried-forward loss of *HUF 720.4 billion*, which can be “amortised” only over a longer period to a reasonable level even under a dynamic growth.

The review of “performance ratios” would not be complete without evaluating the development of the *gross added value*, important from a macroeconomic aspect. The first reading of the figures for 1996 suggest that the added value of the domestic “mean businesses” grew faster, and the added value of foreign ones grew at a slower rate. But a comprehensive evaluation based on a longer timescale shows that 51.7 per cent of added value is generated by businesses with foreign participation, representing a holding share of 31.5 per cent pro equity. (However, their share was 56.0 per cent in the previous year.) Examining the trends of recent years, it can be ascertained that, on average, the role of businesses with foreign participation has further increased in the changes in added value, though the growth rate has slightly decreased if compared to previous years. This is due to the improving performance of domestic businesses.

5 Development of the tax liability of businesses with foreign participation

The improvement of economic performance naturally increases the tax base of businesses, which reasonably implies the overall increase of the tax liability, measured in absolute terms. Estimates based on the economic ratios of 1996 largely confirm such an expectation, but the tax calculated against that actually to be paid shows some variation, exceeding that of any previous year. In other words, the variation of payment liabilities is substantial across the range of individual holding groups.

a) The *aggregate of the calculated tax base and special tax base* is HUF 804.0 billion in the case of profits, and HUF -464.0 billion in the case of losses, and its consolidated balance for 1996 is *HUF 339.5 billion*. As a result of the performance of the economy, and fine tuning of the review, the *calculated tax base* – in year-on-year terms and on the average – has increased exactly three times. (This, however, was not accompanied by the same rate of increase of the actual tax liability, as we will see later.)

The calculated tax shows a considerable variation, depending on business groupings derived according to holding shares. There is a very high growth rate in relation to businesses under full Hungarian control, starting from a low basis. The overall increase of the calculated tax base of businesses with foreign participation corresponds to the average of businesses, but we must not forget that the basis itself was high.

Table 10

Development of the calculated tax base as per holding pattern of companies

Holding share of companies	1995		1996		1996/95 change in value
	million HUF	%	million HUF	%	
100% domestic	15,218	13.5	96,400	28.4	633.5
Foreign over 50%	60,009	53.1	165,174	48.7	275.2
Foreign between 25–50%	23,307	20.6	53,951	15.9	231.5
Foreign note exceeding 25%	25,256	22.4	34,657	10.2	137.2
Public over 50%	38,229	-33.9	-32,483	-9.6	85.0
Domestic over 50%	93,801	83.1	145,968	43.0	155.6
Altogether	112,914	100.0	339,488	100.0	300.7

b) According to normative tax rules for 1996, the volume of the *calculated tax base* of partnership businesses shows, considering total businesses and businesses with foreign participation, an increase of almost one and a half times (with a sum

of HUF 144 billion), and one and a half (with a sum of 78 billion), respectively. (It means that by applying the methodology as required by law, businesses with foreign participation have a 54 per cent share in the calculated tax.)

c) As from 1995, in the case of using profits realised by businesses for income purposes,¹³ and in the case of using it for purposes other than in line with macro-economic expectations, a so-called supplementary tax is to be paid. A barely-concealed intention of such a provision is to minimise the outflow of profits in the form of income realised by businesses, and to maximise the portion of the profit to be reinvested for the expansion of economic resources.

1996 figures suggest that the liability of supplementary taxation – in line with practices of the previous year – applies to a relatively limited range (11 businesses); the change in the supplementary tax base (a 90% increase) corresponds to the improvement in performance-indicators of the economy. (Cp. operating profit: 226 per cent; profit before taxation: 200 per cent.) On average, the *supplementary tax base* is HUF 186.9 billion (with HUF 98.1 billion last year), and 65 per cent of the increase in supplementary tax base is related to businesses with foreign participation (with the same proportion being 62 per cent last year). This is natural, since the projection basis is broader in the case of foreigners.

d) The *calculated amount of supplementary tax* – on average – has increased from HUF 14.2 billion last year to HUF 26.1 billion (there has been no material change in the number of businesses subject to supplementary taxation). As much as 60 per cent of the increase applied to businesses with foreign participation, and as much as 40 per cent applied to businesses under majority domestic control. Detailed figures show that, in the case of businesses with foreign participation – beyond a higher proportion of personnel-related expenditures – dividend-related payments play a considerable role. This is primarily related to the so-called 'success-fee compensation scheme', applied to managers. According to aggregate figures, the value of the supplementary tax assessed on profits realised in 1996 – covering 15 thousand businesses – is HUF 26.1 billion, and 60 per cent of it relates to joint ventures.

e) Tax liability, calculated on the basis of the standard tax and the supplementary tax, is lowered by the *available tax exemptions*. Based on their operation in 1996, 2,402 business entities – amounting to HUF 39.6 billion – enjoyed tax exemptions. (The same value in the previous year was HUF 19.4 billion). Figures on tax exemptions certainly suggest the “leverage” of businesses with foreign participation: meaning, that 96.3 per cent of the available tax exemptions apply to businesses in this category. (Among entitlements to exemptions, *mention must be made* of the exemptions of foreign investors, acquired prior to December 31; for a period of 10 years; exemptions granted for underdeveloped areas; and exemptions derived from the write-off of previous losses carried forward.)

f) The *actual tax liability* imposed on business-earnings in 1996 is HUF 130.6 billion, which corresponds to a *13.2 per cent tax assessment*. (The tax liability in

the previous year was HUF 95 billion, and it represented a 14.4 per cent increase at that time.) The lessening of assessment services in absolute and relative terms naturally also applied to joint ventures; on this basis, the views cited during the year cannot be confirmed subsequently, namely that Hungarian assessments curb further foreign investment. On the other hand, by stabilisation of the 18 per cent tax assessment, and by entries decreasing the tax-base, as well as tax-lessening exemptions collectively, the budget has granted an amount of HUF 25 - 27 billion to businesses with foreign participation, further stimulating those interested in investing in Hungary.

6 Major characteristics of corporate balance-sheets

Figures calculated on the basis of a synthesis of corporate tax returns and disclosed balance-sheets ensure – if only to a limited extent – the overall evaluation of (net worth increasing or even decreasing) *business philosophies* of companies and their *effective financial stance*.¹⁴

The comparison of *tax returns and balance-sheets* is enlightening in many respects:

- the change in balance-sheet figures well illustrates how the business earnings of a particular year influence the *financial position* of businesses,
- capital ratios of businesses (volume, structure, rate of changes) relatively precisely outline the scope of the management, in line with future trends of business conditions.

For the first time after a long period, the balance sheets and tax returns for 1996 remarkably and reasonably suggest that the decrease in value of businesses has stopped. The *value of the balance-sheet totals show a 20.7 increase*, due to capital increases and reinvestment of business profits. (Average growth of 31 to 33 per cent is exceeded metallurgy, production of non-metallic mineral products, and in the area of real estate management. It falls behind the average in forestry, mining, electricity-gas-heat and water supply sectors, and transportation.)

Structural changes – influencing both assets and liabilities – suggest a move more interesting than that of the balance sheet total:

a) Beyond a 20.7% increase of the volume of assets used by businesses, the rate and content of internal structural changes and the polarisation of characteristics by holding groups deserve special attention. The decrease of the proportional share of invested assets, specific values characteristic of the different businesses, and as compensation a fast growth of current assets, is a *general trend*. Conversely, the proportion and total amount of invested assets of *businesses with foreign participation* continue to grow: that is, production activities are pursued in this sector with less current asset stock.

Conclusions to be drawn from the aggregate data of the assets side of corporate balance-sheets and distribution ratios include:

- the proportion of *invested assets* has decreased spectacularly, primarily due to a moderate decrease in the value of *tangible assets* (particularly real estate), and a substantial decrease of its proportion;
- within tangible assets, *closing portfolio investments* show a slow expansion. (The volume was HUF 355 billion, 397 billion, and 515 billion in 1994, 1995 and in 1996, respectively);
- On average, *invested financial assets* experienced stagnation (this is a step backwards with reference to the increase of previous years), of which the decrease of long term bank deposits, and the increase of the value of the quota stock deserve attention;
- the volume and proportion of *current assets* increased spectacularly (29.7 per cent), of which a 1,5 times increase in the stock of *receivables* and short term *securities* deserve special attention.

Table 11

Major asset figures of businesses, subject to corporate tax return

Denomination	(in percentage unit)			
	1993	1994	1995	1996
Invested assets	63.1	61.3	48.3	45.5
of which: intangible assets	1.7	1.4	1.0	0.9
tangible assets	51.6	50.7	35.7	34.1
financial investments.	9.8	9.3	12.9	10.8
Current assets	36.1	37.7	50.4	52.9
Accruals	0.8	0.9	1.3	1.6
Total assets	100.0	100.0	100.0	100.0

In summary it can be stated that there have been changes on the asset side, which – depending on relations between national economies – can assist, and/or curb at the same time, the future potential of the economy-stimulation process, and the scope of economic decisions. However, considerable fragmentation of invested assets on one hand (decrease of specific values), and the continuing high level of the current asset-requirement of the economy on the other hand; consuming substantial resources; and not quite meeting the needed improvements of technical facilities of the economy and technical conditions of production are all warning signs.

b) As a result of the 1996 operation, a considerable reorganisation of the *fund structure* can be observed. Such a differentiation can be detected in the shift in proportion of equity and external funds, redeployment of funds between national

economy sectors, and business forms; but the change in the proportion-pattern between holding groups deserves attention itself.

As a result of the operation in 1996, the *equity portfolio* of businesses has increased HUF 839 billion in the overall economy, but was outperformed by orders with a 2,152 billion change in the *portfolio of receivables*. The total liability of businesses in 1996 was HUF 10.3 billion, of which the value of long term liabilities amounted to HUF 2.3 billion and the value of short term liabilities to HUF 8.0 billion. It is more than interesting that as much as two thirds (66.5%) of short term liabilities is held against businesses with foreign participation.

Table 12

Major liability figures of businesses subject to corporate taxation

(in percentage unit)

Denomination	1993	1994	1995	1996
Equity	58.7	46.6	39.6	38.0
Provisions	0.4	0.5	2.0	1.8
Liabilities	39.8	51.1	56.6	58.1
of which: long term	6.6	8.3	13.7	13.1
short term	33.2	42.8	42.9	45.0
Deferrals	1.1	1.8	2.0	2.1
Total liabilities	100.0	100.0	100.0	100.0

Figures for 1995 and 1996 clearly illustrate the increase of the equity portfolio of businesses, and also that the growth was especially dynamic specifically in businesses with foreign participation. It is remarkable that this growth is higher than the amount of the inflow of foreign capital into Hungary in 1996.¹⁵ This means that other funds have also contributed to growth. As far as we know, a *HUF 416.6 billion* increase in the equity of businesses with foreign participation between 1995–1996 is partly due to additional foreign investments (capital increase), partly to reassessments related to restructurings, and partly to “reinvestment” of the earnings of business management in 1996. The latter can be interpreted in many respects, but we think it is primarily attributable to the fact that businesses with foreign participation are “interested” in making use of the business profit in Hungary. Instead of the 18 per cent tax payable in Hungary, it would be hardly reasonable to redeploy the income to a country with a higher tax burden.

The *equity portfolio of business with foreign participation* has increased at a rate higher than average, that is HUF 416.6 billion (49.6 per cent) was realised out of the total increase of HUF 839.4 billion in this field. Considering that the number of businesses grew at a rate higher than the value of the equity, *specific indicators have changed* in a specific way – namely in a negative direction. The *average value of equity* per business, based on the figures of total businesses, has decreased

from HUF 263 thousand in 1995 to HUF 229 thousand; in the case of businesses with foreign participation this value fell from HUF 2.5 million to HUF 2.0 million.

Attention should be paid to the *change in equity by business forms*. In this respect we have to mention in particular companies, public limited companies and private limited companies. Figures suggest that the increase of equity in absolute terms is the fastest in relation to private limited companies (HUF 404 B), and public limited companies (HUF 384 B), and relatively slow in the case of limited partnerships (HUF 17 B), and co-operatives. Indicators by business form are all the more thought-provoking because they suggest that from the aspect of mobilising household capital, nowadays business forms of smaller scale, transparent to the average citizen, can expect success.

Table 13

Change in equities of businesses operating under the rules of corporate taxation by holding structures

Holding share of companies	1995		1996		1996/95 change
	billion HUF	%	billion HUF	%	
100% domestic	3,319.5	56.3	3,742.2	55.5	112.7
Foreign over 50%	1,627.9	27.6	1,957.4	29.0	120.2
Foreign between 25–50%	781.3	13.2	847.9	12.7	108.5
Foreign note exceeding 25%	171.6	2.9	194.2	2.9	113.2
Public over 50%	1,545.9	26.2	1,596.4	23.7	103.3
Domestic over 50%	648.9	11.0	808.9	12.0	124.7
Altogether*	5,900.3	100.0	6,739.7	100.0	114.2

* Subtotals of the chart not to be directly added, they might overlap.

Changes on the liability side basically suggest a favourable move, but the current dependence on “external resources” by businesses can only be reduced by *substantial strengthening of internal funds*. Additional resources appear to be needed (capital increase from external resources, application of household savings); on the other hand, there will be a need to combine economic resources which operate fragmentarily, in order to encourage domestic capital concentration.

7 Conclusions and recommendations

Financial statements (balance-sheets) for 1996, CSO figures, and tax returns of partnership businesses provide a relatively reasonable basis to review the general characteristics of business management. Specifically – despite concerns over methodology – we can also evaluate with reasonable accuracy the efficiency-indicators of *businesses with foreign participation*. As a summary we can establish that efficiency-indicators of businesses with foreign participation are more favour-

able than the average domestic businesses. Partly due to this, partly due to the economic background, they influence the operation of the Hungarian economy to a greater extent than their actual property share. Also, beyond explicit repercussions, the *implicit economic role* of businesses with foreign participation cannot be ignored, considering that through their orders they have a substantial impact on the opportunities of the Hungarian economy.

Some characteristic indicators of the economic activities of businesses with foreign participation in 1996, and of their proportional share within the Hungarian economy:¹⁶

• share in total employees	26.2%,
• proportional share in net sales revenues	44.6%,
• share in export output	68.7%,
• share in total costs and total expenditures	44.8%,
• share in accounted depreciation	52.3%,
• share in tax exemptions	96.3%,
• share in payable taxes	40.4%,
• share in profit after taxation	76.6%,
• share in paid dividends and quotas	76.6%,
• property share in issued capital	44.5%,
• share in the growth of the equity in 1996	49.6%.

The individual proportional shares are not enough in themselves to draw conclusions, unless the implications are considered. One might gather, for instance, that the output of businesses with foreign participation increased beyond the average, their cost-management practices are tighter, and due to this, and exemptions granted by the Hungarian state, their efficiency is also better. All this can be detected in a measurable way in the equity growth of the businesses.

Summarising the evidence of our study, our basic findings in relation to the businesses with foreign participation operating in Hungary are as follows:

- throughout a globalizing world, foreign capital plays an increasing role, and Hungary itself cannot avoid this process;
- the change in the *holding structure* was spectacular, and one of its features is the decrease of public property shares, another feature is the increase of the importance both of foreign and domestic corporate holdings;
- the appearance of foreign investors initially decreased the rate of economic recession, and later played a proactive role in the recovery of the economy;
- the statement that businesses with foreign participation deplete the external balance of the country cannot be confirmed, just the opposite, – through higher export output they have favourably shaped the development of the external balance;
- cost and income consciousness of businesses with foreign participation (and also the efficiency of their economy) is much stronger than that of domestic businesses operating in a comparable form;

- it can be demonstrated that the profits of businesses with foreign participation remain in the country, and their primary area of usage is the expansion of resources of the economy (this will naturally have influence on the future change in holding patterns);
- to date, businesses with foreign participation have changed their dividends and quotas at a slower rate than that of their profits. Considering that a broadening range of businesses included here are going public, and one of the forming elements of the BSE quotes is the rate of the dividend, the interest in dividend payment is expected to grow;
- the increase in the volume and proportional share of portfolio investment flows to Hungary is a warning phenomenon, because on one hand investors are motivated by *short term interests*, and, on the other hand, their decisions are almost exclusively determined by whether or not production is *capable of ensuring higher profitability* than the trend of interest rates offered by financial institutions;
- the investment rate in real estate brokerage is unreasonably high, and – based on international experiences – such a situation makes us cautiously optimistic, considering that this sector (without any actual increase in worth) will not be able to ensure dynamic and sustainable growth.

In relation to the *future operation* of businesses with foreign participation there are many exciting issues to be raised. On the one hand, how do we ensure a *constant interest* of the foreign capital which is vital for the growth of the Hungarian economy upon the completion of privatisation; and, on the other hand, how do we ensure that businesses with foreign participation would *reinvest the profit* generated in Hungary following EU accession (upon levelling the assessment servicing conditions) to ensure the development of the domestic economy. In any case, it is clear that economic policy-makers have to make efforts to maximise their awareness of the intentions of multinational concerns and their methods of achieving them, since specific Hungarian interests can only be enforced in possession of such information.

On average, the financial information for 1996 (balance sheets, returns, single information) reasonably describes the stabilisation of the Hungarian economy and its constantly growing role in the favourable process of businesses with foreign participation. Nowadays it is basically an economic issue, but we have to take account of its influence in the social sphere. It is our mutual responsibility to give a real picture of the foreign capital operating in Hungary (nowadays the signs, if at all detectable, are more positive than negative). But we also have to be aware of our role, that foreign investors should feel secure, and that upon the completion of privatisation, they should be interested in further investments in Hungary.

Notes

- 1 As recent publications show, the total between 1989–96 has exceeded the amount of HUF 16 billion, of which app. HUF 3 billion was realised in 1996.
- 2 See: launching of E-credit and its practical outcome.
- 3 See: APEH-SZTADI processing of annual returns, and periodic publications of the CSO.
- 4 As a consequence of the way holding-groups with varying proportions are derived, there might be some overlap between them (e.g. a business with a foreign property share, not exceeding 25% may also be stated between businesses with domestic property shares, exceeding 50%), however a distorting effect of possible accumulation can be eliminated, subject to appropriate adjustments.
- 5 In fact, portfolio investors are financial investors. Financial proprietors are actually not involved in the management of companies, they are basically interested in maximising their profits.
- 6 Presently the majority of Hungarian shares – according to estimates as much as 70–75 per cent of the publicly circulated market capitalization of the BSE – is held by foreign (basically English-speaking) investors.
- 7 In this specific case, the distribution of the issued capital is considered as a basis for projection.
- 8 A major change in comparison with the conditions existing as of December 31, 1996 is the privatisation of the power sector, resulting in significant changes in proportions.
- 9 Pitti, Z.: A really initial capital accumulation in Hungary. – *Társadalmi Szemle*, 1997, No. 8–9.
- 10 The increase of costs is, in the majority of cases, in line with the sectoral increase of sales revenues.
- 11 Where this practice exists, it can be attributed to the advantages arising from the difference between countries, irrespective of what the case is: more attractive raw material, or component prices, lower wages, tax advantages, or accounting standards, differing from international practices.
- 12 For the sake of completeness, it should be noted that the aggregated profit after taxation was HUF 50 billion in 1994, the period preceding the reviewed one.
- 13 Including – without the need of being comprehensive – the paid dividends, final fund transfers, “premature” decreases of the issued capital, settlements related to wind-ups, and the special tax liability of foreign businesses with Hungarian domicile.
- 14 Balance sheet figures are designed to crosscheck the major implications of tax returns, and a kind of supplement of the inconvenient fact that the processing of the balance sheets is carried out only in a limited scope and with considerable delay. (Based on the information from the Commercial Register, in 1995 less than 70 per cent of businesses has complied with their liability to submit their balance sheets).
- 15 The closing value in HUF of the equity in 1996 was higher than the HUF equivalent of a USD 16 billion capital inflow into our country between 1992–96. This could clearly result from the reinvestment of the profit for economic purposes.
- 16 As we have already noted at the beginning of our study, businesses with foreign participation can only be segregated only by holding groups, so figures contain some distortion. Considering, however, that it applies to each indicator, comparison is not affected.

TRANSITIONS OF THE SPATIAL STRUCTURE OF THE ECONOMY IN HUNGARY

LÁSZLÓ HRUBI

1 Introduction

The assessment and evaluation of the structure of regional economy is rather relative, as there are no general points of reference which are independent of space and time, and even the structure of the macro-economy is not necessarily a model to follow. With the gradual unfurling and extending of the regional economy and the regional market, the development and structure of the regional economy is ever more based on the mobilisation of inner resources. The creation of a standing competitiveness (the formation and maintenance of a kind of regional development balance) can take place based upon the local endowments, conditions and possibilities, and their optimal consideration and utilisation. Since regional endowments and conditions are varied, the economy and its structure are also different. The fact that a structure differs from another one does not mean that it is either better or worse.

Although there are no unified and complete patterns for the assessment of regional economic structure, there are a few tendencies connected to the structural changes, which can be taken as standards.

Phenomena which are usually present in the transition economies are:

- spatial extension of new organisations;
- the organisational development of economic companies, their capital accumulation and appearance on the stock exchange;
- the appearance and spread of foreign capital;
- tertiarisation in general (in the organisational system of the economy and in profitability);
- within industry, the growing importance of processing sectors;
- the transition of the employment structure in favour of the secondary, and even more the tertiary sector.

The change of model, which started in Hungary in the early 1990s (and also its antecedents), takes place within special conditions as regards the direction and intensity of the restructuring of the regional economy:

- The transformation of the sectoral structure (which is slow and often subject to recession) had been going on since the mid-1980s, and it accelerated (especially in the field of trade and traditional services) in the late 1980s, in the period of the so-called spontaneous privatisation, which was not controlled centrally by the state.
- The change of model was basically driven by political purposes, so the evolution of the socio-political conditions and the tolerance of the citizens necessarily slowed down the radical transformation of the economy. Naturally it was not simply a social or political effect, because the transition took place when the world economy was in a crisis. Thus the internal profitability of the economy did not provide, despite the extremely high income-curtailing and centralisation, a large enough resource for the budget. This was not capable of financing equitable moderation of the social problems which would have been caused by more radical progress.
- The need for restructuring occurred parallel to the necessity to transform the ownership structure (privatisation) and the disintegration of the organisational system of large companies. This forced management to make extremely complicated economic policy manoeuvres which had never been tried anywhere before.
- The change of model was essentially a change of paradigm too, as regional interests may only have appeared in the former centralised model in the field of employment. The vision of a democratic and decentralised society projected a regionalised economy (and market) and a commitment to autonomous regional economic growth.

In the period of such fundamental rearrangements of economic conditions, it is difficult to assess the relative situation of the regional- and settlement-level economic potential. The factors inherited from the past, and the new factors, which show adaptation, co-exist in structures varying across regions and sectors. The development potential of the local economy at any point in time is determined on the one hand by the historical heritage from the previous eras (in an extreme definition, the accumulated advantages and disadvantages). On the other hand, the degree of adaptation to the current requirements is critical (this is also closely related to the historical development).

When analysing the transition of the spatial structure of the economy, basically two questions have to be answered:

- 1) how the spatial distribution of the economy evolves (in a general sense this is an issue of regional equality and inequality, because the root-cause of regional subsidiarity is the increasing exclusion from the processes of the macro-economy); and

- 2) how the sectoral, ownership and organisational system of the regional economy changes, whether the differences and the tendencies reflect the regionalisation of the economy and the market.

The short period of time that has passed since the systemic change can be divided into two, from the aspect of the tasks and the above-mentioned conditions of restructuring, where the dividing line can be the years 1993 and 1994.

The main characteristic feature of the first period is the inevitable transitory dismantling, despite the appearance of new organisations and activities. Privatisation affects approximately half of the total economic property, attracting significant amounts of foreign capital into the economy. The economic structure, superficially, is changing (in a quantitative sense). Two elements should be mentioned to help interpret the crisis situation: a huge number of companies went bankrupt and their average profitability fell to a very low level (*Table 1* and *Figure 1*), at the same time, unemployment reached its highest level (*Table 2*), the booming number of the unemployed evoking almost a shock effect.

Table 1

Average profitability of economic organisations per county, 1991

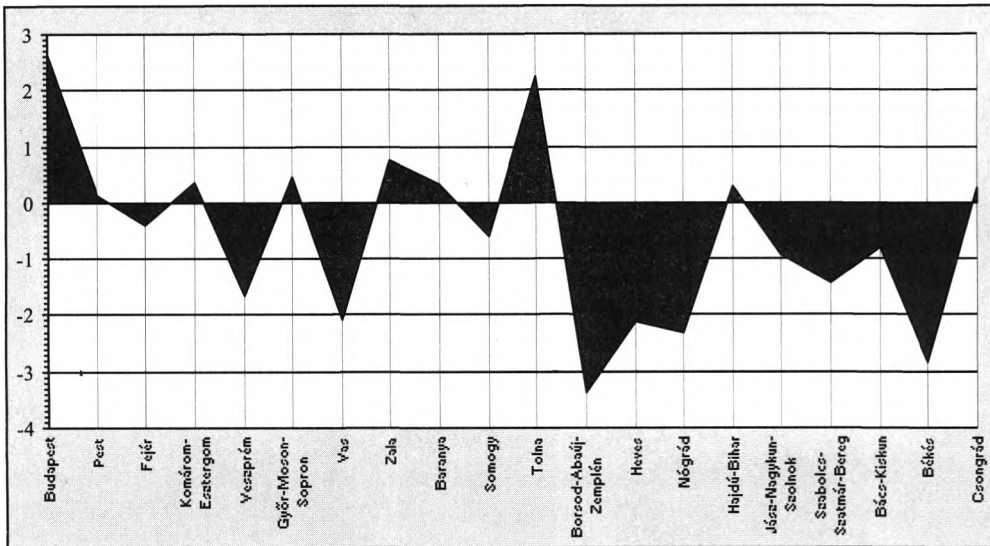
County	Total	Profit as a percentage of income (%)		
		State-owned companies	Co-operatives	Limited liability companies
Budapest	2.64	2.30	-3.62	2.58
Pest	0.12	-1.26	-3.17	2.70
Fejér	-0.41	0.15	-1.42	-0.24
Komárom-Esztergom	0.36	0.94	-0.14	0.68
Veszprém	-1.67	-1.24	-5.55	-1.62
Győr-Moson-Sopron	0.47	-0.10	-1.07	2.40
Vas	-2.09	-2.64	-0.06	-5.99
Zala	0.77	1.51	-4.34	2.50
Baranya	0.31	-0.15	-3.23	2.58
Somogy	-0.61	0.01	-0.50	-2.11
Tolna	2.25	1.36	2.90	4.08
Borsod-Abaúj-Zemplén	-3.38	-0.72	-3.97	-3.00
Heves	-2.11	-0.81	-3.80	-2.03
Nógrád	-2.31	-3.92	-2.02	1.05
Hajdú-Bihar	0.30	1.19	-2.49	1.55
Jász-Nagykun-Szolnok	-0.94	-0.40	-4.82	3.01
Szabolcs-Szatmár-Bereg	-1.42	-2.67	-1.61	3.16
Bács-Kiskun	-0.80	-3.88	-0.84	1.74
Békés	-2.83	-2.64	-5.40	1.46
Csongrád	0.27	2.01	-1.93	-1.14

Source: Report on the territorial processes. Budapest, Ministry of Environment and Regional Development, 1992, p. 73.

The main characteristic of the second phase is stabilisation – although at a lower level than before – which has created the possibility of growth on a new track. Unemployment – although it is still high – has started to decline moderately (Table 2, Figure 2), and GDP per capita to increase (Figure 3).

Figure 1

*Average profit rate of economic organisations in the counties (%),
1991*



These two separate phases, which characterise the evolution of the whole of the economy, can be shown in all aspects of the formation of the spatial structure of the economy and in all (even the most developed) regional units.

2 The evolution of the regional structure of the economy¹

The regional structure of the national economy evolves subject to the combined effect of the regional transition of its three basic factors, namely the organisational system of the economy, employment and the value of economic performance.

The *organisational system of the economy* underwent a drastic transformation in the 1990s. The establishment of the basis of the market economy demanded

¹ The periods taken into account in the analyses are mostly determined by the issue of statistical data, since the change in the economic paradigm brought about the reform of the statistical system in conformity to Eurostat. The years 1993 and 1994 are the dividing lines.

mostly the foundation of new enterprises: this was the dominant element in the change of the organisational system. In addition, it was necessary to make the existing large-scale industrial systems competitive – combined with the change of ownership, privatisation – which, in the majority of the cases, resulted in the disintegration of the large companies and the abandonment of some of their activities.

Table 2

The development of the unemployment rate, 1990–1996, %

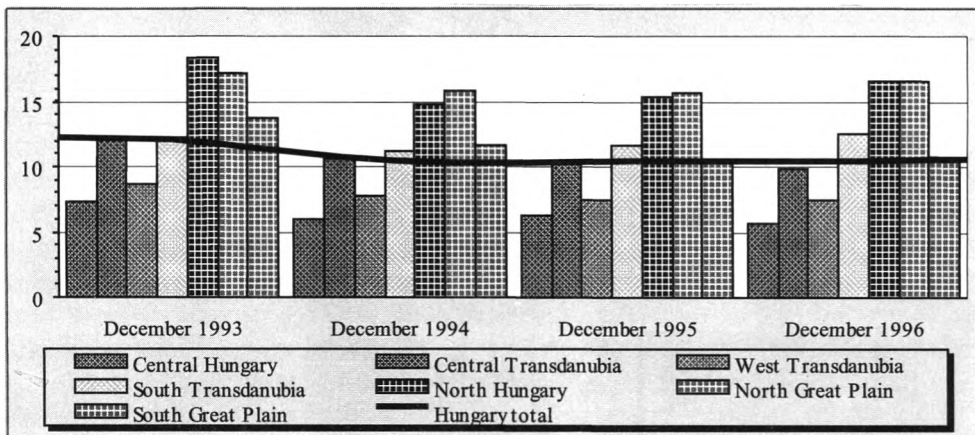
Location	Unemployment rate, %					Index 1996/1993
	January 1990	December 1993	December 1994	December 1995	December 1996	
Budapest	0.0	6.3	5.4	5.7	5.0	79.4
Pest	0.0	9.6	7.2	7.4	6.9	71.9
<i>Central Hungary</i>	<i>0.0</i>	<i>7.3</i>	<i>6.0</i>	<i>6.2</i>	<i>5.6</i>	<i>76.7</i>
Fejér	0.4	11.9	10.4	10.2	9.0	75.6
Komárom-Esztergom	0.2	13.4	11.4	10.7	11.5	85.8
Veszprém	0.5	11.5	10.3	10.0	9.4	81.7
<i>Central Transdanubia</i>	<i>0.4</i>	<i>12.2</i>	<i>10.6</i>	<i>10.3</i>	<i>9.8</i>	<i>80.3</i>
Győr-Moson-Sopron	0.2	7.8	6.9	6.5	6.7	85.9
Vas	0.2	8.8	7.3	7.1	6.8	77.3
Zala	0.3	9.9	9.1	9.4	9.2	92.9
<i>West Transdanubia</i>	<i>0.2</i>	<i>8.7</i>	<i>7.7</i>	<i>7.5</i>	<i>7.5</i>	<i>86.2</i>
Baranya	0.4	12.3	11.1	11.6	12.0	97.6
Somogy	0.6	11.3	10.5	11.9	12.6	111.5
Tolna	0.8	13.8	12.1	11.7	13.6	98.6
<i>South Transdanubia</i>	<i>0.6</i>	<i>12.3</i>	<i>11.2</i>	<i>11.7</i>	<i>12.6</i>	<i>102.4</i>
Borsod-Abaúj-Zemplén	1.0	19.9	15.6	16.6	18.4	92.5
Heves	0.7	13.8	12.3	12.4	12.8	92.8
Nógrád	0.8	19.7	15.5	15.4	16.3	82.7
<i>North Hungary</i>	<i>0.9</i>	<i>18.3</i>	<i>14.8</i>	<i>15.3</i>	<i>16.6</i>	<i>90.7</i>
Hajdú-Bihar	0.5	16.3	14.2	13.7	15.7	96.3
Jász-Nagykun-Szolnok	0.7	16.1	14.5	14.5	14.4	89.4
Szabolcs-Szatmár-Bereg	1.5	18.7	18.5	18.8	19.0	101.6
<i>North Great Plain</i>	<i>1.0</i>	<i>17.1</i>	<i>15.8</i>	<i>15.7</i>	<i>16.5</i>	<i>96.5</i>
Bács-Kiskun	0.5	14.8	11.4	10.1	10.3	69.6
Békés	0.2	15.2	14.2	12.9	13.6	89.5
Csongrád	0.4	11.1	9.7	9.0	9.0	81.1
<i>South Great Plain</i>	<i>0.4</i>	<i>13.7</i>	<i>11.7</i>	<i>10.5</i>	<i>10.8</i>	<i>78.8</i>
Hungary total	0.4	12.1	10.4	10.4	10.5	86.8

Source: Területi Statisztikai Évkönyv, 1994. Budapest. Központi Statisztikai Hivatal, p. 6. and Területi Statisztikai Évkönyv, 1996. Budapest. Központi Statisztikai Hivatal, p. 14.

Another factor was the re-organisation of the unnecessarily integrated partial economic activities, which had been viable on their own, into independent organisations (spill over effect). This process also amounted to a dynamic growth in the number of new economic units. The number of businesses with legal entity (joint-stock companies, limited companies, co-operatives etc.), which are dominant in the organisational structure of the economy (and which require large amounts of starting capital and employ more labour), grew almost fourfold in 1990-1996. At the end of 1996, on average every tenth Hungarian citizen, or every third family, was involved in some registered (individual or partnership) businesses.

Figure 2

The development of the unemployment rate, 1993-1996, %



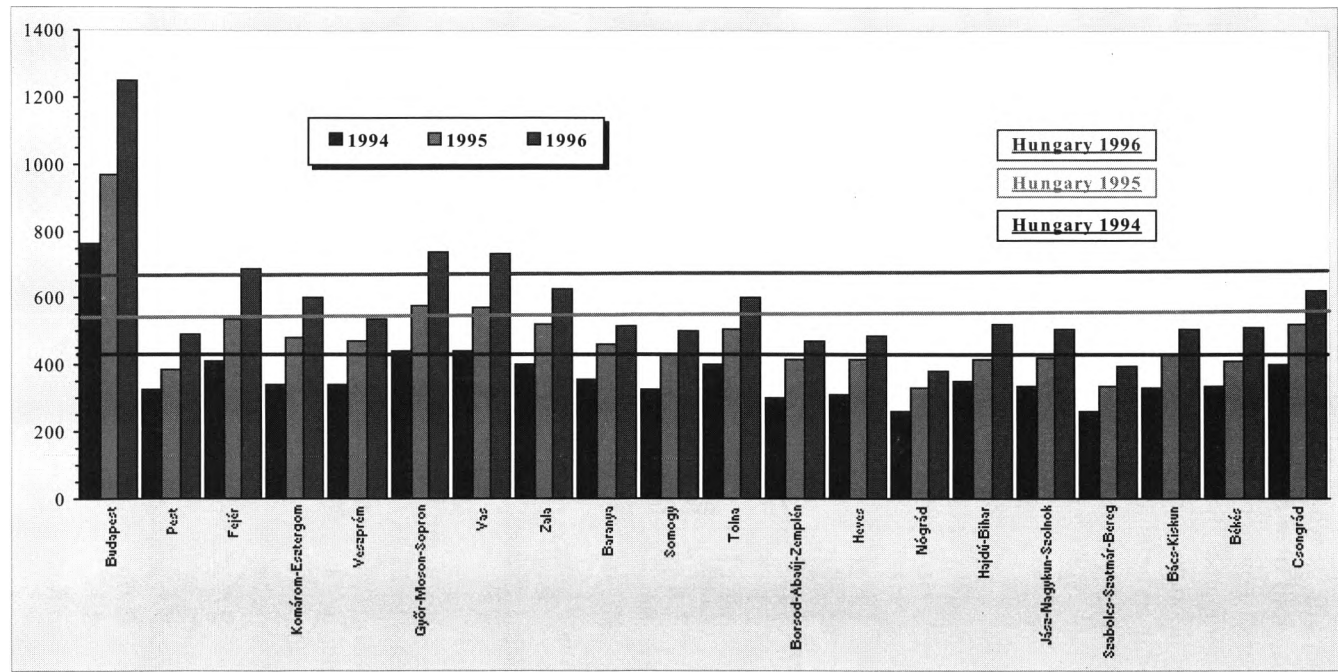
However, this significant quantitative growth was not exempt from internal contradictions. In 1996, for example, the proportion of those businesses registered, formally existing but not operating, for a short or longer period of time, exceeded 30%. In other words, the boom of business foundations was an involuntary, quasi-process created by a forced situation, a reaction to need in many respects.

One of the needs was unemployment deriving from the change of the economic model, which was a great shock to society. A significant proportion of dismissed employees tried to re-establish their finances by founding an enterprise, usually without capital or entrepreneurial skills. The majority of the non-operating businesses belong to this category.

Similarly, the shortage and high prices of the current assets connected to stockpiling also forced the organisational system to evolve. Given a certain amount of capital assets, credit possibilities, interest-rate and date of maturity, the only possible way of operation was to accelerate the circulation of commercial credits.

Figure 3

The development of per capita GDP, 1994–1996, (1000s HUF)



Source: Területi Statisztikai Évkönyv, 1996. Budapest. Központi Statisztikai Hivatal, p. 25.

A practical and easy-to-solve way of that was fragmentation: the businesses started newer and newer small businesses, then divided the formerly single economic entity into allocated sections. The other forcing element was of regulatory–financial nature. The transformation of the national economy took place with a significant shortage of capital, and for a long time with worsening returns. Within this scenario, especially with the lack of circulating capital and its concomitant high cost, demand was dominant.

Expenses connected to employment increased drastically, because of taxes and allowances and the rapid increase in wages. Personal income tax rates were high, in an attempt to compensate to some extent for the high inflation. One of the consequences was that businesses eliminated the existing employee-status of their workers and made them establish private or joint businesses – with a minimal amount of capital – for doing the same activities. As a consequence, the former employee did for its former employer the same activity, but now as a business service, usually for a service fee hardly exceeding his former net salary. The taxation system – which, because of the preferences of the economic policy (to decrease the shortage of capital and increase the internal demand), set higher rates for the taxes based on wages than those on capital income and consumption – made this solution “low-cost” for both parties.

Similarly, the shortage and high price of the current assets connected to the stockpiling also forced the increase of the organisational system. Given a certain amount of capital asset, credit possibilities, interest rate and date of maturity, the only possible way of operation was the acceleration of the velocity of the circulation of commercial credits. A practical and easy-to-solve way of that was the fragmentation: the businesses started newer and newer small businesses, then divided the formerly single economic activity into pieces and allocated them to their satellite organisations, also distributing this way the costs of stocking. Banks are more willing to provide smaller-scale commercial credits, and on better terms, because of the safer returns (as the collateral was the personal property of the new entrepreneurs). The only problem occurred when this high-velocity credit-practice stopped at one of the links: a chain of debts swept across the economy immediately, and state interventions were often forced by the large number of those who wanted their money back.

Besides the long-term and quantitative changes of the organisational system, the elements that mobilised a qualitative change in the organisational structure were mainly the joint ventures with foreign capital participation. These enterprises did not suffer a significant capital shortage and were not forced to do major organisational–employment manoeuvres. Still, as they were surrounded by the Hungarian economic sphere, which behaved differently (in the light of the above-mentioned, more unstably) and at lower quality-levels, these joint ventures, especially the Hungarian subsidiaries of multinational companies, were almost enclaves in the Hungarian economic system. In the beginning they formed almost all

their major business connections with the mother company or other foreign companies. Their real integration into the national economy of Hungary started very slowly, to a considerable extent only after 1994.

The evolution of *employment conditions* has already been mentioned several times. The shift to the market economy in itself significantly decreased the number of jobs, because the low efficiency and profitability of the former companies was partly due to over-employment. In addition, the evolution of the organisational system also decreased employment. The number of jobs decreased considerably. In the 1990s, besides a 3-3.5% decrease in the population and a similar fall in the working population, the unemployment rate grew rapidly until 1994, remained constant until 1996 and has only recently started to decline. We have to add that, at the same time, the more consolidated unemployment indices of Budapest, which concentrates one fifth of the population and an ever larger share of the employees, moderated the level of the unemployment in the overall national economy. This hid the real weight of the problem, because there were large differences concealed by the average of the national economy, which were often invisible to observers.

Knowing these general tendencies of the organisational system and employment, it is less surprising that the third element defining the regional structure of the economy, the *output of the economy measured by GDP*, deteriorated more intensively than it should have in these first few years. This was because of the recession in the world economy, then – with some ups and downs – it generally stagnated until 1995-1996, and the conditions for long-term growth only seem to have appeared afterwards.

The development of the spatial structure of the organisational system of the economy is determined first of all by the regional distribution of the number of joint ventures; within that, mostly businesses with a legal entity, larger capital assets and more employees. Between 1990 and 1996, the regional distribution of these companies did not change much, the former 'lines of force', drawn by the organisational system prior to the change of model, still exist (*Table 3, Figure 4*).

The figure is almost a "fever curve" of the regional disparities of the Hungarian economy. The distribution of shares from the number of joint ventures and from the regional population show the concentration of the economic potential in the Transdanubian – and of course the Budapest-centred – regions (the first four actors in the figure). Conversely the Eastern parts of Hungary how a deconcentration.

The direction of the curves representing the three selected years – the expression of the regional disparities – hardly changed; some modifications took place between the two large regions of Hungary. The only exception is the South Great Plain, where the inherited position was relatively more favourable, and the success of their efforts to break with the 'regional lag-effect' can also be seen.

The first half of the years from 1990 to 1996 – until 1994 – is characterised by a striking quantitative boom (*Table 4, Figure 5*). On the one hand, this is the most intensive period of the re-organisation of the former state businesses into economic companies; on the other hand, the government policy supported the

Table 3

Differences in the regional distribution of the joint ventures and the population, 1992–1996, %

Location	Distribution of the population, %			Distribution of the joint ventures, %			Difference between the distributions, %		
	(1)	(1)	(1)	(2)	(2)	(2)	(2) per (1) – 100	(2) per (1) – 100	(2) per (1) – 100
	1990	1994	1996	1990*	1994	1996	1990	1994	1996
Budapest	19.5	18.8	18.5	43.0	42.0	41.3	120.6	123.1	122.8
Pest	9.2	9.5	9.8	8.1	7.9	8.9	-11.5	-17.2	-9.4
<i>Central Hungary</i>	28.7	28.3	28.3	51.1	49.9	50.2	78.2	76.1	77.2
Fejér	4.1	4.2	4.2	2.9	3.3	3.2	-29.4	-19.8	-23.8
Komárom-Esztergom	3.0	3.1	3.1	2.8	2.7	2.5	-8.7	-11.4	-19.5
Veszprém	3.7	3.7	3.7	2.7	2.5	2.5	-27.2	-32.9	-33.8
<i>Central Transdanubia</i>	10.8	10.9	10.9	8.3	8.5	8.1	-22.8	-21.9	-26.0
Győr-Moson-Sopron	4.1	4.2	4.2	3.7	3.3	3.6	-9.3	-19.4	-15.1
Vas	2.7	2.7	2.7	1.8	1.6	1.6	-31.8	-41.5	-38.1
Zala	2.9	3.0	2.9	2.0	2.4	2.4	-31.5	-19.9	-18.3
<i>West Transdanubia</i>	9.7	9.8	9.8	7.5	7.3	7.6	-22.2	-25.6	-22.3
Baranya	4.0	4.0	4.0	2.9	3.7	3.8	-28.0	-7.3	-4.3
Somogy	3.3	3.3	3.3	2.8	2.5	2.4	-15.2	-24.1	-26.5
Tolna	2.4	2.4	2.4	1.8	1.6	1.6	-27.1	-36.2	-35.1
<i>South Transdanubia</i>	9.8	9.8	9.7	7.5	7.8	7.8	-23.4	-20.2	-19.5
Borsod-Abaúj-Zemplén	7.3	7.3	7.3	4.4	4.5	4.4	-40.0	-39.0	-40.1
Heves	3.2	3.2	3.2	1.8	1.4	1.6	-44.5	-55.8	-51.7
Nógrád	2.2	2.2	2.2	1.6	1.2	1.1	-28.6	-44.3	-48.3
<i>North Hungary</i>	12.7	12.7	12.7	7.7	7.1	7.0	-39.2	-44.2	-44.4
Hajdú-Bihar	5.3	5.4	5.4	3.0	3.5	3.8	-44.1	-33.9	-30.1
Jász-Nagykun-Szolnok	4.1	4.1	4.1	2.0	2.1	2.3	-50.1	-48.2	-43.6
Szabolcs-Szatmár-Bereg	5.5	5.6	5.6	2.9	2.9	3.0	-47.7	-48.5	-46.0
<i>North Great Plain</i>	14.9	15.1	15.1	7.9	8.6	9.1	-47.1	-43.2	-39.7
Bács-Kiskun	5.2	5.3	5.3	4.0	4.3	4.1	-24.1	-19.1	-23.5
Békés	4.0	4.0	3.9	2.5	2.0	2.1	-36.5	-48.9	-46.8
Csongrád	4.2	4.2	4.2	3.4	4.6	4.0	-19.4	9.1	-4.5
<i>South Great Plain</i>	13.4	13.4	13.4	9.9	10.9	10.1	-26.3	-19.1	-24.5
Hungary total	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0	0.0

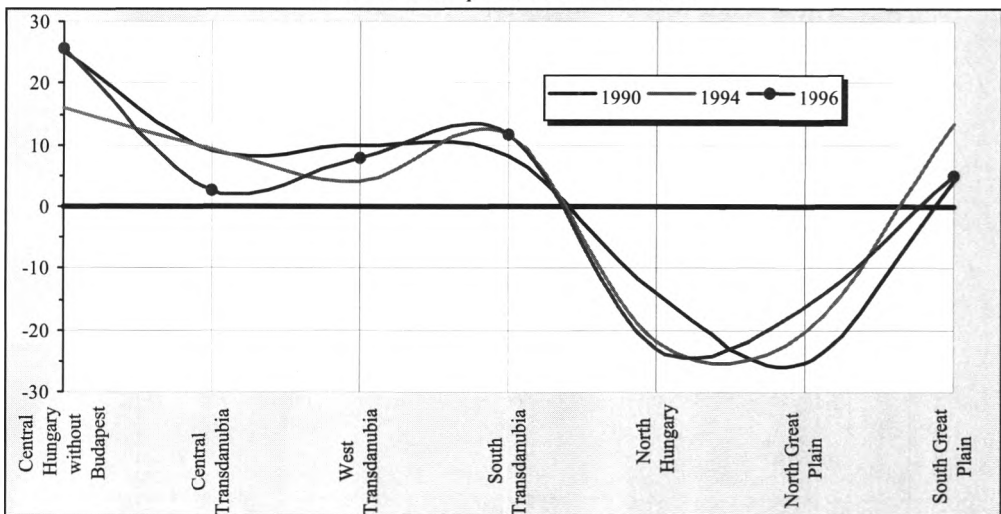
* Businesses with legal entity

Source: Területi Statisztikai Évkönyv. 1994, 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author).

foundation of businesses at that time with significant financial means. After 1994, it is the more consolidated organisational development that has become typical. The differences in the indices of the density of businesses already show the failures of the business foundations supported by financial means, which could be seen by the end of 1993. 1994 and the following period saw mass bankruptcies and the concomitant liquidations of companies.

Figure 4

Regional imbalance of the distribution of joint ventures and of the population without Budapest, 1990–1996, %



The curves of the indices of the regional density of companies show the same spatial structural imbalances, in different shapes, as in *Figure 4*. The positional advantages of Budapest and its environs – the Central Hungarian region – could be seen later in the success of businesses. Disparities of almost a different order of magnitude were created, which, although less stark, still exist. This region is not only more developed in its speed of reaction, but also in its capacity for long-term growth, than the other parts of Hungary. The other characteristic feature of *Figure 5* is the repeated appearance of the West–East (Transdanubia–East Hungary) slope.

The transition of the spatial structure of the organisational system within the regions – among the counties – by the indices of the counties making up the regions, is relatively balanced: both with regard to direction and intensity (the special situation of the Central Hungarian region, because of the capital, is also notable, of course). There are only a few characteristic differences (in South Transdanubia, Baranya moved upwards in the period from 1990 to 1994, while Somogy downwards after 1994; in the North Hungarian region, Nógrád county shows the weakest dynamism, although it does not lag behind in its density of businesses; in the Southern Great Plain, Békés county is the weakest link in the chain).

Table 4

*Number of joint ventures with legal entity
per thousand inhabitants, 1990–1996*

Location	Number of businesses per one thousand inhabitants			Index	
	1990	1994	1996	1994/1990	1996/1994
Budapest	6.3	23.3	26.3	370.9	113.0
Pest	2.5	8.4	9.8	333.4	116.4
<i>Central Hungary</i>	<i>5.1</i>	<i>18.3</i>	<i>20.6</i>	<i>360.6</i>	<i>112.7</i>
Fejér	2.0	6.8	7.3	337.3	107.5
Komárom-Esztergom	2.6	8.4	8.9	325.0	105.8
Veszprém	2.1	7.1	7.6	342.5	106.5
<i>Central Transdanubia</i>	<i>2.2</i>	<i>7.4</i>	<i>7.8</i>	<i>334.8</i>	<i>106.6</i>
Győr-Moson-Sopron	2.6	8.7	9.7	336.4	111.4
Vas	1.9	6.8	8.0	351.0	117.7
Zala	2.0	6.9	7.7	355.8	110.9
<i>West Transdanubia</i>	<i>2.2</i>	<i>7.6</i>	<i>8.6</i>	<i>345.4</i>	<i>112.8</i>
Baranya	2.1	8.2	9.6	398.1	117.0
Somogy	2.4	7.1	7.3	293.1	103.5
Tolna	2.1	6.2	6.9	300.5	111.4
<i>South Transdanubia</i>	<i>2.2</i>	<i>7.3</i>	<i>8.1</i>	<i>335.6</i>	<i>111.4</i>
Borsod-Abaúj-Zemplén	1.7	5.4	5.8	315.5	107.4
Heves	1.6	4.9	5.6	310.5	114.3
Nógrád	2.0	5.6	5.7	277.6	100.1
<i>North Hungary</i>	<i>1.7</i>	<i>5.3</i>	<i>5.7</i>	<i>306.7</i>	<i>107.7</i>
Hajdú-Bihar	1.6	6.0	7.0	374.8	116.8
Jász-Nagykun-Szolnok	1.4	5.1	6.1	357.7	120.5
Szabolcs-Szatmár-Bereg	1.5	5.2	5.8	349.5	112.0
<i>North Great Plain</i>	<i>1.5</i>	<i>5.4</i>	<i>6.3</i>	<i>361.2</i>	<i>116.0</i>
Bács-Kiskun	2.2	7.7	8.4	357.0	109.3
Békés	1.8	5.2	5.5	288.4	106.5
Csongrád	2.3	7.8	8.6	341.0	110.0
<i>South Great Plain</i>	<i>2.1</i>	<i>7.0</i>	<i>7.6</i>	<i>334.0</i>	<i>109.0</i>
Hungary total	2.8	9.9	11.0	347.2	111.6

Within the spatial distribution of economic organisations, the territorial order of joint ventures with *foreign ownership* shows much bigger differences. The difference-indices of the transition, calculated as in the previous case – although together with Budapest this time – vary in a range twice as broad from 1993 to 1996: the differences among the regions are much larger (*Table 5, Figure 6*) The basic image of the curves – the groups of the regions – is almost the same, the difference is that the South Transdanubian region, especially because of its bad transportation situation, is already in the negative side of the West–East slope. Major differences compared to the previous chart can mostly be seen in the groupings of above-average and below-average dynamism (in other words, the positive and negative sides of the slope).

Figure 5

Number of joint ventures with legal entity per thousand inhabitants according to region, 1990–1996

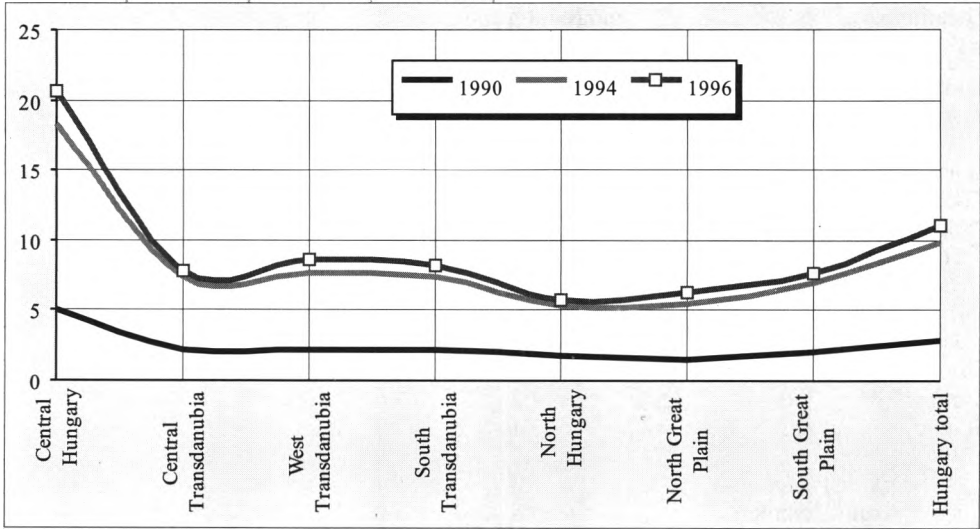


Figure 6

Regional disparity in the distribution of joint ventures and businesses with foreign participation, 1993–1996, %

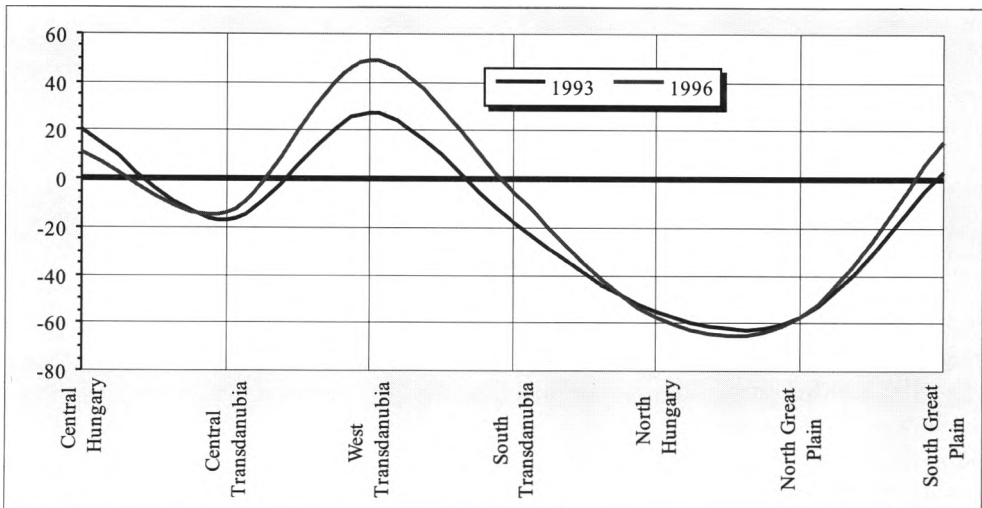


Table 5 Differences in the regional distribution of the number and capital assets of partnership businesses and businesses with foreign participation, 1993–1996, %

Location	Distribution of corporate businesses, %		Distribution of joint ventures, %		Difference in the distribution of corporate businesses and joint ventures, %, (2) per (1) – 100 (3)		Distribution of corporate businesses by capital assets, % (4)		Difference in the distribution of the number and capital assets of joint ventures, % (4) per (2) – 100 (5)	
	(1)		(2)		(3)		(4)		(5)	
	1993	1996	1993	1996	1993	1996	1993	1996	1993	1996
Budapest	41.1	41.3	52.2	49.4	27.0	19.7	65.1	54.3	24.9	9.7
Pest	7.6	8.9	6.2	6.3	-17.3	-29.2	5.3	7.3	-14.5	15.9
<i>Central Hungary</i>	<i>48.6</i>	<i>50.2</i>	<i>58.4</i>	<i>55.7</i>	<i>20.1</i>	<i>11.1</i>	<i>70.5</i>	<i>61.5</i>	<i>20.7</i>	<i>10.4</i>
Fejér	3.4	3.2	2.1	2.0	-39.2	-36.5	3.7	2.7	75.3	31.3
Komárom-Esztergom	2.5	2.5	2.1	2.0	-14.6	-17.8	3.2	2.6	51.0	30.9
Veszprém	2.5	2.5	2.8	2.9	10.4	18.3	1.2	1.3	-55.5	-55.4
<i>Central Transdanubia</i>	<i>8.4</i>	<i>8.1</i>	<i>7.0</i>	<i>6.9</i>	<i>-17.1</i>	<i>-14.2</i>	<i>8.1</i>	<i>6.6</i>	<i>15.9</i>	<i>-5.0</i>
Győr-Moson-Sopron	3.6	3.6	4.4	4.9	24.0	37.3	3.4	5.3	-24.1	7.9
Vas	1.7	1.6	2.5	2.6	49.9	57.7	2.0	2.1	-21.0	-20.9
Zala	2.3	2.4	2.6	3.8	16.4	59.7	1.3	1.3	-49.3	-65.5
<i>West Transdanubia</i>	<i>7.5</i>	<i>7.6</i>	<i>9.6</i>	<i>11.3</i>	<i>27.5</i>	<i>48.8</i>	<i>6.7</i>	<i>8.6</i>	<i>-30.2</i>	<i>-23.6</i>
Baranya	3.8	3.8	3.4	3.8	-10.0	-0.7	1.9	2.7	-45.7	-28.4
Somogy	2.4	2.4	2.0	2.6	-15.6	7.2	0.8	0.7	-59.7	-71.3
Tolna	1.7	1.6	1.1	1.0	-37.4	-34.6	0.5	0.4	-53.5	-65.6
<i>South Transdanubia</i>	<i>7.8</i>	<i>7.8</i>	<i>6.5</i>	<i>7.4</i>	<i>-17.6</i>	<i>-5.1</i>	<i>3.1</i>	<i>3.8</i>	<i>-51.3</i>	<i>-48.6</i>
Borsod-Abaúj-Zemplén	4.4	4.4	1.7	1.3	-61.2	-69.2	2.1	6.3	21.7	365.9
Heves	1.5	1.6	0.8	1.0	-45.7	-33.6	1.1	2.3	40.1	119.4
Nógrád	1.4	1.1	0.7	0.6	-46.4	-43.7	0.8	0.5	12.9	-21.5
<i>North Hungary</i>	<i>7.2</i>	<i>7.0</i>	<i>3.2</i>	<i>3.0</i>	<i>-55.2</i>	<i>-57.3</i>	<i>4.0</i>	<i>9.0</i>	<i>24.4</i>	<i>200.1</i>
Hajdú-Bihar	3.8	3.8	1.7	1.6	-55.8	-58.6	1.9	3.7	11.8	136.2
Jász-Nagykun-Szolnok	2.4	2.3	1.0	1.0	-58.1	-55.2	1.0	1.0	1.4	-5.2
Szabolcs-Szatmár-Bereg	3.1	3.0	1.3	1.3	-59.5	-57.3	0.8	0.7	-39.9	-45.9
<i>North Great Plain</i>	<i>9.4</i>	<i>9.1</i>	<i>4.0</i>	<i>3.9</i>	<i>-57.6</i>	<i>-57.3</i>	<i>3.7</i>	<i>5.4</i>	<i>-7.5</i>	<i>37.8</i>
Bács-Kiskun	4.5	4.1	4.8	4.1	5.3	1.5	1.6	1.1	-66.3	-72.9
Békés	2.4	2.1	1.3	1.0	-44.1	-50.1	1.3	0.8	-2.3	-25.7
Csongrád	4.1	4.0	5.3	6.5	29.6	63.6	1.0	3.1	-81.4	-52.2
<i>South Great Plain</i>	<i>11.0</i>	<i>10.1</i>	<i>11.4</i>	<i>11.7</i>	<i>3.5</i>	<i>15.3</i>	<i>3.9</i>	<i>5.0</i>	<i>-65.7</i>	<i>-57.1</i>
Hungary total	100.0	100.0	100.0	100.0	0.0	0.0	100.0	100.0	0.0	0.0

Source: Területi Statisztikai Évkönyv. 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author).

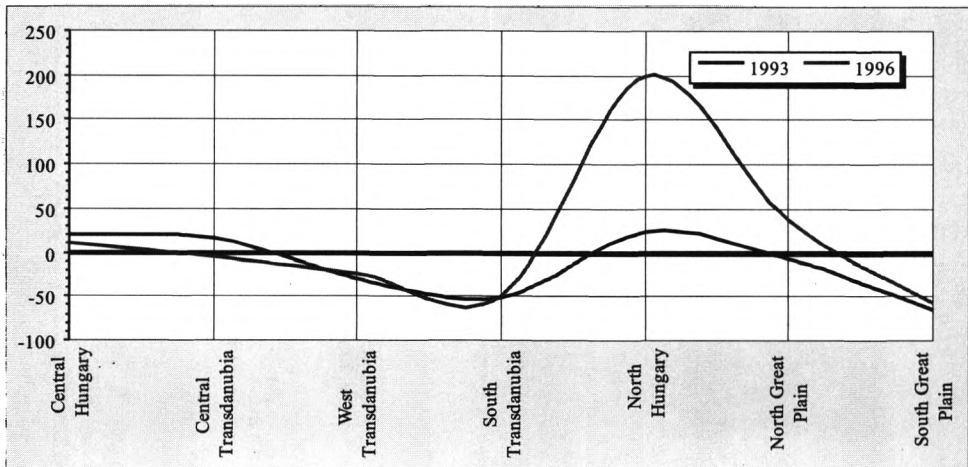
The Central Hungarian region – especially the capital, of course – using its advantageous position, created its new company ownership structure already by the early 1990s: more than half of the joint ventures are in this region. In the period following 1993, its role somewhat decreased. The reason for that is that, having gone through the essential quantitative-type transformation, the basis of the qualitative development was established. In all probability, this will be seen in the second half of the 1990s in capital intensification, organic corporate development (market expansion, capital accumulation, transition into more advanced business form) and the intensity of the access to the stock exchange; and not in the simple proliferation of organisations. The quantitative boom of companies with foreign shares was more typical of the West Transdanubian region (especially Vas and Zala counties) after 1993.

The Central Transdanubian region seems to fall behind in this competition. The fact is, however, that in this area – partly because of privatisation – a more concentrated model of foreign participation is typical, with a smaller number of organisations, but with more capital, than for example in the West Transdanubian Vas or Zala counties. Finally, the South Great Plain region also shows a dynamism that exceeds the average in this respect.

The evaluation of the regional structure of joint ventures is more elaborate, if we compare the distribution of the capital assets of companies with foreign shares, with the distribution of the number of businesses (*Figure 7*).

Figure 7

Regional disparities in the number and capital assets of businesses with foreign participation, 1993–1996, %



The most striking is the predominance of the North Hungarian and the North Great Plain regions. The explanation for their extreme situation is probably that the appearance of foreign capital is extremely concentrated, mostly because of the state-organised privatisation (otherwise their positions in the proportion of joint ventures are very unfavourable). These areas are not touched by the "spontaneous", natural expansion process experienced in other regions – especially in the North Hungarian areas – aiming at the foundation of new businesses and acquiring capital shares in the small and medium size enterprises. In the long run this might be unfavourable, as it can amount to a delay and a loss of competitiveness (capital absorption capacity).

The comparison of the proportion of joint ventures and capital assets shows the characteristics of the capital-absorption ability of the regions so far. The capital city and the Central Transdanubian region are characterised by a more balanced inflow of capital, which is slightly more directed towards the larger businesses. West Transdanubia and the South Great Plain demonstrate more extended, but individually smaller, diffusion. The weakness of the South Transdanubian region in this respect, which we have already referred to, becomes even clearer if we add the fragmented capital volumes to the low proportion of joint ventures.

In the evolution of the territorial structure of the organisational system – i.e. in the spreading of the businesses – the effects of four tangible conditions can be seen:

- income and money accumulation or the use of foreign resources;
- relatively large local and regional markets or the impulses and demands of the broader market;
- minimum environmental background and infrastructure for the foundation and operation of the businesses;
- organisational-information criteria, i.e. the penetration of mediating, learning, (special) market and entrepreneurial skills though the organisational support system; opportunities for businesses, provided that the ability and motivation exist.

All four criteria are present in a region depending on its former (level of) development, so it is natural in a sense that no major spatial structural rearrangement has taken place in the short period of the 1990s. In fact, in a way the former disparities have grown: this is probably only transitory, caused by differences in regional reaction capacity.

Among the criteria, because of the general shortage of capital, the use of foreign (external) resources, the capital-absorption capacity of the regions is very important. In this respect, the competitiveness and attraction of the regions plays a dominant role. This competitiveness comes from three main sources, according to an analysis of the processes taking place so far, especially the regional spreading of foreign capital:

- environmental quality in the broader sense (where the qualitative elements of locality are appreciated again);
- the level of local–regional resources (where the dominance of human resources and the role of the economic-management traditions and culture become more and more important), and
- geographical location (including in general, transportation and telecommunications development, fast accessibility, proximity in a literal and figurative sense).

All these combined draw the cumulated lines of force of the different development periods, which are dominant in the evolution of the spatial structure of the economy. Organic development and the determination by preliminary factors play an important role. No kind of intervention should be expected to bring about a rapid break-through.

In *employment*, significant regional rearrangements did not take place between 1993 and 1996. The transition can be linked mostly to the competitive sphere, within that, the competitive small- and medium-sized enterprises are particularly dominant in employment. Compared to them, the regional employment-function of the budgetary organisations and the service sectors in monopoly or quasi-monopoly situations (transportation, telecommunication, to a certain extent trade) are moving towards equalisation, more or less proportionate to the distribution of the population.

The increase of employment and its opposite, the decrease of unemployment, is typical in the regions most affected by the competitive medium and large enterprises, i.e. the Northwest part of Hungary (*Table 6, Figure 8*).

The role of Budapest and thus the central region is slightly decreasing, but this region maintains its central position in this respect. The Central Transdanubian region, getting out of the structural crisis of the 1990s, is gradually strengthening (regaining) its role in employment, while West Transdanubia has been preserving and improving its (relatively) favourable labour market situation. In the remaining four regions there are hardly any changes, the curves of the two dates are almost the same. It is typical that in the South Transdanubian and the Southern Great Plain regions, which are on the turning point (cross-roads) of development capacity in several respects, the deviations are negative.

Within the regions, among the counties, significant changes in direction or intensity are less frequent. In the case of the Central Region, the “historical” capital city–Pest county employment dichotomy lives on; alongside this, Fejér county “returns” in the Central Transdanubian region, while Baranya county goes on falling behind in South Transdanubia.

As a summary of what has been said to describe the spatial structure of the economy, let us look at the evolution of the *distribution of regional GDP* (*Figure 9, Table 7*).

Table 6

Differences in the distribution of the population and employment, 1993–1996, %

Location	Distribution of the population, %		Distribution of employees, %		Difference in the distributions, %	
	(1)	(1)	(2)	(2)	(2) per (1) – 100	(2) per (1) – 100
	1993	1996	1993	1996	1993	1996
Budapest	19.4	18.5	28.9	28.1	48.7	51.6
Pest	9.4	9.8	5.7	5.7	-39.0	-41.8
<i>Central Hungary</i>	28.8	28.3	34.6	33.8	20.1	19.4
Fejér	4.1	4.2	3.9	4.2	-5.8	1.1
Komárom-Esztergom	3.0	3.1	2.9	2.8	-6.2	-8.2
Veszprém	3.7	3.7	3.6	3.7	-2.2	-1.0
<i>Central Transdanubia</i>	10.8	10.9	10.3	10.7	-4.7	-2.2
Győr-Moson-Sopron	4.2	4.2	4.4	4.6	4.8	10.6
Vas	2.7	2.7	3.0	3.2	11.7	19.5
Zala	2.9	2.9	3.1	3.1	4.4	4.8
<i>West Transdanubia</i>	9.7	9.8	10.4	10.9	6.5	11.3
Baranya	4.1	4.0	3.9	3.6	-4.5	-9.9
Somogy	3.3	3.3	2.9	2.9	-11.4	-10.6
Tolna	2.4	2.4	2.4	2.4	-2.4	-1.4
<i>South Transdanubia</i>	9.8	9.7	9.2	9.0	-6.3	-8.0
Borsod-Abaúj-Zemplén	7.2	7.3	6.7	6.9	-7.0	-5.9
Heves	3.2	3.2	2.8	2.8	-12.7	-13.3
Nógrád	2.2	2.2	1.8	1.7	-18.0	-20.9
<i>North Hungary</i>	12.6	12.7	11.3	11.4	-10.3	-10.3
Hajdú-Bihar	5.3	5.4	4.7	4.8	-11.7	-11.2
Jász-Nagykun-Szolnok	4.1	4.1	3.7	3.7	-10.2	-10.4
Szabolcs-Szatmár-Bereg	5.5	5.6	4.0	4.1	-27.5	-27.7
<i>North Great Plain</i>	14.9	15.1	12.3	12.5	-17.1	-17.1
Bács-Kiskun	5.2	5.3	4.4	4.4	-16.2	-16.8
Békés	3.9	3.9	3.4	3.3	-13.1	-15.0
Csongrád	4.2	4.2	4.1	4.0	-2.7	-4.4
<i>South Great Plain</i>	13.4	13.4	11.9	11.7	-11.0	-12.4
Hungary total	100.0	100.0	100.0	100.0	0.0	0.0

Source: Területi Statisztikai Évkönyv. 1993., 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author).

Looking at the development of the processes, the first characteristic again is the fact that the capital city – partly because of the excessive concentration of the sectors influenced by income transfer (e.g. financial services, or technological development and innovation) – is above the national average, increasing its position with regard to regional GDP (in the Figure, in order to better illustrate the other differences, the Central Region was considered again without the capital city).

Figure 8

Regional disparities in the distribution of employees and the population, 1993–1996, %

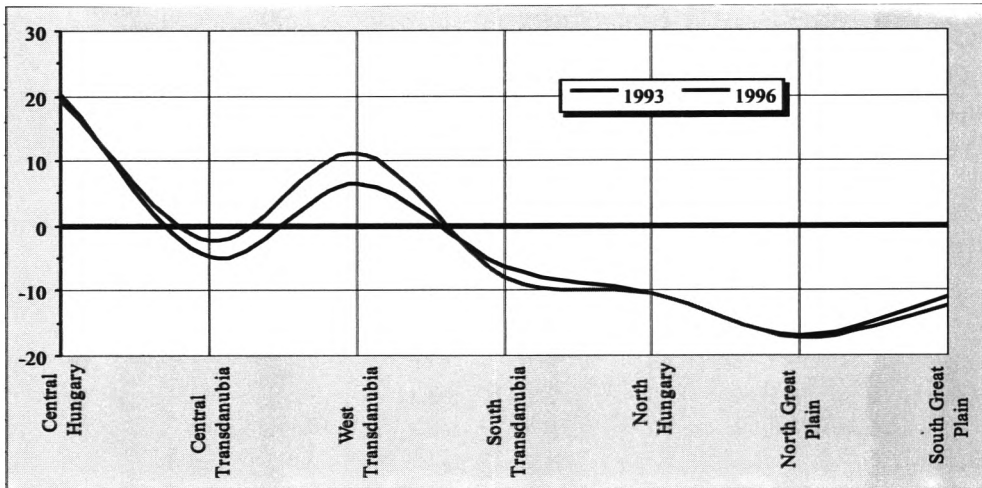


Figure 9

Regional disparity in the distribution of gross value-added and the population, without Budapest, 1992–1996, %

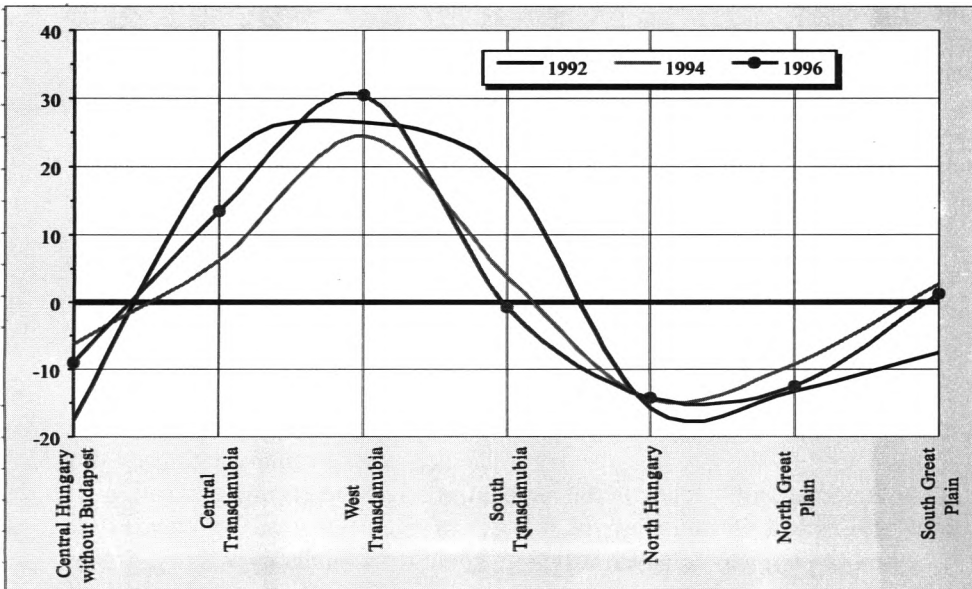


Table 7

Differences in the distribution of the population and gross value-added calculated at a basis price, 1992–1996, %

Location	Distribution of the population, %			Distribution of gross value-added, %			Difference in the distributions, %		
	(1)			(2)			(2) per (1) – 100		
	1992	1994	1996	1992*	1994	1996	1992	1994	1996
Budapest	19.5	18.8	18.5	53.0	34.4	34.6	172.3	82.6	86.9
Pest	9.3	9.5	9.8	4.5	7.2	7.1	-52.0	-24.3	-26.9
<i>Central Hungary</i>	28.8	28.3	28.3	57.5	41.6	41.8	99.9	46.8	47.6
Fejér	4.1	4.2	4.2	2.9	4.0	4.3	-28.1	-4.0	2.3
Komárom-Esztergom	3.0	3.1	3.1	2.5	2.5	2.7	-17.0	-19.7	-10.6
Veszprém	3.7	3.7	3.7	2.1	2.9	3.0	-41.7	-20.7	-20.0
<i>Central Transdanubia</i>	10.8	10.9	10.9	7.6	9.4	10.0	-29.6	-14.1	-8.9
Győr-Moson-Sopron	4.1	4.2	4.2	3.6	4.3	4.6	-13.8	3.7	10.0
Vas	2.7	2.7	2.7	1.7	2.7	2.9	-34.1	3.4	8.8
Zala	2.9	3.0	2.9	1.9	2.8	2.7	-36.5	-6.1	-6.6
<i>West Transdanubia</i>	9.7	9.8	9.8	7.2	9.8	10.2	-26.2	0.7	4.7
Baranya	4.0	4.0	4.0	2.7	3.4	3.1	-33.3	-16.2	-23.0
Somogy	3.3	3.3	3.3	1.7	2.5	2.5	-48.9	-23.7	-25.1
Tolna	2.4	2.4	2.4	2.4	2.3	2.2	-3.2	-6.1	-10.0
<i>South Transdanubia</i>	9.8	9.8	9.7	6.7	8.2	7.7	-31.1	-16.2	-20.5
Borsod-Abaúj-Zemplén	7.3	7.3	7.3	3.9	5.1	5.1	-45.7	-29.8	-29.6
Heves	3.2	3.2	3.2	1.4	2.3	2.3	-55.9	-27.4	-27.3
Nógrád	2.2	2.2	2.2	0.8	1.3	1.2	-61.0	-39.2	-42.8
<i>North Hungary</i>	12.6	12.7	12.7	6.2	8.8	8.7	-50.9	-30.8	-31.3
Hajdú-Bihar	5.3	5.4	5.4	3.6	4.4	4.2	-32.8	-17.2	-22.1
Jász-Nagykun-Szolnok	4.1	4.1	4.1	2.2	3.2	3.1	-46.6	-21.7	-24.1
Szabolcs-Szatmár-Bereg	5.5	5.6	5.6	1.8	3.4	3.3	-67.7	-39.3	-41.1
<i>North Great Plain</i>	14.9	15.1	15.1	7.5	11.1	10.6	-49.4	-26.6	-29.7
Bács-Kiskun	5.2	5.3	5.3	2.7	4.1	4.0	-48.7	-23.2	-24.2
Békés	3.9	4.0	3.9	1.9	3.1	3.0	-51.0	-21.1	-24.0
Csongrád	4.2	4.2	4.2	2.6	4.0	3.9	-38.2	-4.7	-6.9
<i>South Great Plain</i>	13.4	13.4	13.4	7.2	11.2	10.9	-46.1	-16.8	-18.7
Hungary total	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0	0.0

* Total gross added value, calculated at a basis price, of the companies making a balance sheet report (after tax statistics, individual data supply).

Source: Területi Statisztikai Évkönyv. 1994, 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (calculations by the author).

The Central Transdanubian region has increased its weight, but it still does not reach its share based on population numbers. Western Transdanubia, however, exceeded that limit in the period between 1994 and 1996, and became a core area of concentration.

In the case of the other regions, the proportion of the contribution to gross added-value has decreased. The most striking is again the falling behind of South Transdanubia, but the evolution of the position of the South Great Plain is not too promising, either. The contribution of the two classical crisis regions – North Hungary and the North Great Plain – to the GDP, deteriorated further from 1994 to 1996.

Within the individual regions, the development of the positions of the counties is relatively balanced. It is worth noting the development of Fejér, especially, but also Komárom-Esztergom in the Central Transdanubian region; while in West Transdanubia it is Győr-Moson-Sopron and Vas that continuously improve their positions. At the other extreme, it is the loss of Baranya's position that is striking, stressing the fact that the decline took place from a former situation that was not really favourable.

3 The sectoral structure of the regional economy

The sectoral structure of the regional economy is characterised by its transitory character, a mixture of the disintegrating old structure and the developing new one, showing signs of unsettledness in the majority of the regions.

The transition of the spatial structure of the economy thus far has been mostly quantitative, on the basis on which the qualitative development of the market economy can take place (competitive, effective development, based on the inner resources, producing a systematic and adequate capital accumulation). Consequently, the dominant elements were the short-term market interests and survival, which, if they stabilise the organisational system, create the possibilities for longer term adaptation and growth. These elements are also important from the viewpoint of the sectoral structure of the regional economy.

Almost all of the above mentioned processes shaping the spatial structure of the economy involved the spontaneity of the transformation of the economic structure. The disintegration of the former (mostly large-scale industry dominated) organisational system and the transformation of the ownership structure, affected in the first place the primary and the secondary sector. The industrial-agricultural structural character almost completely disappeared by the beginning of the 1990s. The proportion of those employed in agriculture and forestry was only 8% in 1993 (*Table 8*), but a drastic decrease can be seen in industrial employment, also (*Figure 10*).

Table 8

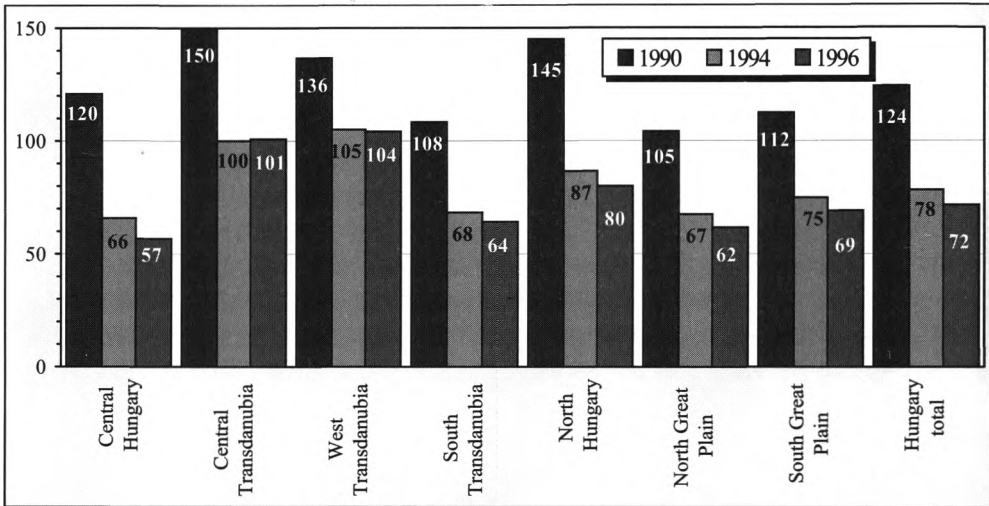
Employment structure of the counties and regions, 1993, 1996, %

Counties and regions	Employment shares, 1993							Employment shares, 1996							Employment index 1996/1993
	Agriculture forestry, fishing	Industry and construction		Services			Total	Agriculture, forestry, fishing	Industry and construction		Services			Total	
		total	in them: manu- facturing	total	In them: business services	In them: public services			total	In them: manu- facturing	total	In them: business services	In them: public services		
Budapest	0.8	24.9	18.2	74.3	9.6	37.8	100.0	0.6	20.9	15.2	78.5	10.4	41.1	100.0	82.2
Pest	9.4	41.1	31.7	49.5	3.6	28.1	100.0	6.6	38.6	30.7	54.7	4.3	31.6	100.0	83.9
<i>Central Hungary</i>	2.3	27.6	20.4	70.2	8.6	36.2	100.0	1.6	23.8	17.8	74.5	9.4	39.5	100.0	82.4
Fejér	12.3	45.9	33.4	41.8	4.4	21.1	100.0	8.9	50.8	39.1	40.3	4.5	21.7	100.0	92.3
Komárom-Esztergom	7.6	45.6	29.6	46.8	3.6	23.9	100.0	7.6	45.3	32.2	47.1	4.6	25.7	100.0	83.0
Veszprém	8.5	43.7	31.0	47.8	3.6	22.9	100.0	7.1	44.4	33.6	48.6	3.6	25.7	100.0	86.3
<i>Central Transdanubia</i>	9.7	45.0	31.5	45.3	3.9	22.5	100.0	7.9	47.1	35.4	44.9	4.2	24.1	100.0	87.6
Győr-Moson-Sopron	10.4	42.4	34.3	47.1	3.7	21.9	100.0	8.2	44.0	36.1	47.8	4.3	23.0	100.0	89.7
Vas	11.6	42.9	35.7	45.5	2.7	21.0	100.0	9.0	46.4	40.1	44.6	3.1	22.1	100.0	90.4
Zala	11.4	42.3	32.5	46.3	2.6	22.9	100.0	8.7	41.9	32.6	49.4	3.5	25.3	100.0	85.1
<i>West Transdanubia</i>	11.0	42.5	34.2	46.4	3.1	21.9	100.0	8.6	44.1	36.3	47.3	3.7	23.4	100.0	88.6
Baranya	11.2	35.0	21.9	53.8	4.5	27.8	100.0	10.1	31.7	20.5	58.3	4.7	33.1	100.0	78.6
Somogy	17.5	28.3	19.8	54.3	3.5	27.6	100.0	14.4	28.9	22.0	56.7	3.9	31.4	100.0	85.3
Tolna	17.7	37.8	24.2	44.5	3.2	23.4	100.0	14.5	40.3	27.8	45.2	4.4	25.6	100.0	85.4
<i>South Transdanubia</i>	14.9	33.6	21.8	51.5	3.8	26.6	100.0	12.7	33.1	23.0	54.3	4.3	30.5	100.0	82.5
Borsod-Abaúj-Zemplén	6.1	43.3	31.5	50.6	4.5	26.1	100.0	5.4	41.3	30.2	53.3	4.2	30.0	100.0	86.1
Heves	9.4	38.9	26.6	51.7	3.6	27.2	100.0	7.9	38.7	27.1	53.4	5.3	30.1	100.0	84.3
Nógrád	6.7	45.4	37.6	47.9	3.1	27.7	100.0	5.8	40.9	34.6	53.2	3.2	33.1	100.0	82.2
<i>North Hungary</i>	7.0	42.6	31.3	50.4	4.1	26.6	100.0	6.1	40.6	30.1	53.3	4.3	30.5	100.0	85.1
Hajdú-Bihar	11.1	33.7	26.0	55.3	3.3	28.9	100.0	10.0	33.3	27.1	56.7	4.1	31.8	100.0	85.5
Jász-Nagykun-Szolnok	14.7	36.9	30.5	48.4	2.9	25.0	100.0	12.3	38.0	32.5	49.7	4.1	28.4	100.0	85.1
Szabolcs-Szatmár-Bereg	10.3	32.2	25.3	57.6	2.9	30.6	100.0	6.1	32.3	27.4	61.6	3.0	37.1	100.0	86.8
<i>North Great Plain</i>	11.9	34.1	27.1	54.0	3.0	28.3	100.0	9.4	34.4	28.8	56.2	3.8	32.5	100.0	85.8
Bács-Kiskun	14.1	36.0	30.2	50.0	3.4	26.7	100.0	12.2	36.7	31.3	51.1	3.8	28.5	100.0	84.8
Békés	15.1	37.5	32.1	47.5	3.8	25.4	100.0	11.9	37.5	32.5	50.6	4.2	29.8	100.0	83.2
Csongrád	10.4	35.9	28.6	53.7	4.3	28.3	100.0	9.8	35.0	28.3	55.2	5.2	30.0	100.0	81.4
<i>South Great Plain</i>	13.1	36.4	30.2	50.5	3.8	26.9	100.0	11.3	36.4	30.6	52.4	4.4	29.4	100.0	83.2
Hungary total	8.1	35.0	26.3	56.9	5.3	29.3	100.0	6.7	34.1	26.4	59.3	5.9	32.2	100.0	84.4

Source: Területi Statisztikai Évkönyv. 1994, 1996. Budapest. Központi Statisztikai Hivatal. Various pages.

Figure 10

Number of employees in industry, per thousand inhabitants



Source: Területi Statisztikai Évkönyv. 1994, 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author).

The other main process shaping the organisational system, the spreading of new businesses, could not result in marked regional sectoral structures, either: the new businesses were established in a medium with a shortage of capital, often in “involuntary” ways. This is one of the reasons for the fact that the most striking feature of the economic transformation so far has been fragmentation, which again is not a trend which promotes the firm establishment of sectoral structures (*Figure 11*).

The chart shows the composition of the major business sphere which forms the backbone of the organisational system of the economy, the companies with legal entity (joint-stock companies, limited companies, co-operatives), by the number of employees. To clarify, we have to add that the category of businesses with less than 20 employees is actually the group of companies with less than 10 employees in 1996, because the share of legal entities with less than 10 employees was 84% in Hungary at that time.

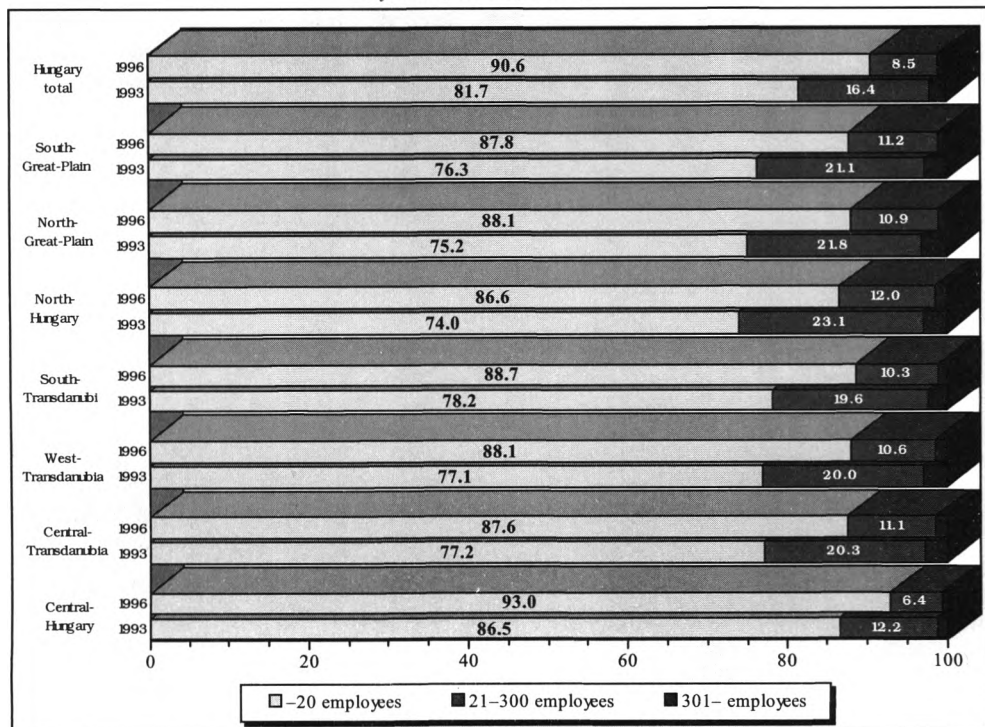
Behind the quantitative development of the organisational system of the economy, there is an unfavourable fragmentation. This is a cumulative and joint result of the liquidation and transformation of the economic organisations, privatisation, the shortage of capital, taxation preferences and not last the incentive system encouraging the foundation of businesses. The worrying predominance of the small enterprises is not the sign of a flexible organisational system in this case.

All these factors result in a situation where the sectoral structure of the regional economy is underdeveloped. It has been shaped in the transition so far by spontane-

ous and often forced changes. (The organisational transformation of the agricultural economy, the extraction and processing industry and their structured decline, parallel to the adaptation. In the situation with a shortage of capital, the majority of the new businesses chose the less capital intensive and thus less risky tertiary sector; within which, the budgetary-communal services preserved their sectoral positions despite the waves of rationalisation). Less formative factors are a conscious economic organisation and policy, and regional management.

Figure 11

Composition of corporate businesses with legal entity in the regions, by size, 1993, 1996, %

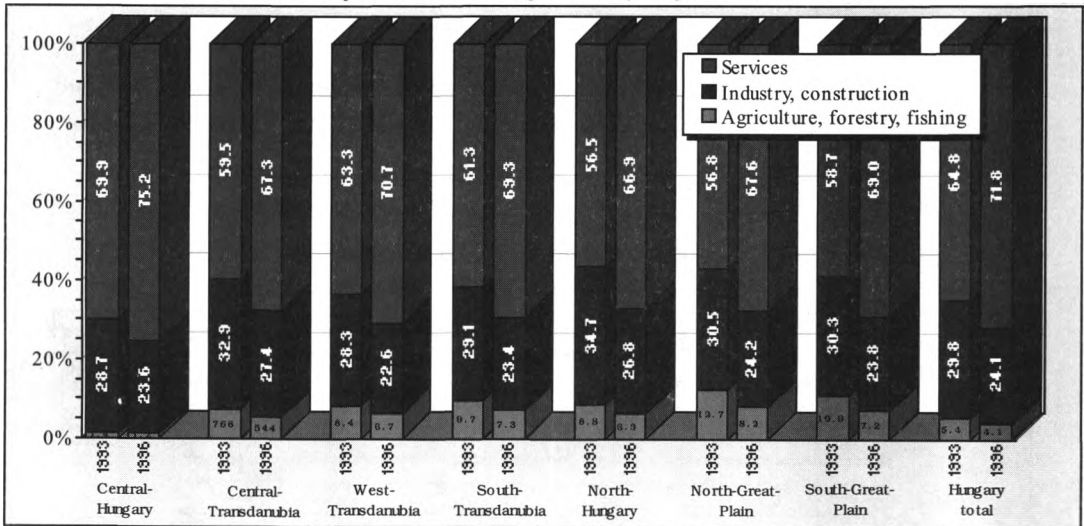


Source: Területi Statisztikai Évkönyv. 1994, 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author).

Apart from the Central Hungarian region (which shows evident signs of a real tertiarisation) and the Central Transdanubian region (with a dominant processing industry orientation), there is not one Hungarian region with a profile that projects a possible market prospect (Figure 12).

The picture is similar if we look at the shares of the two dominant sectors of the modern economy, i.e. financial and business services, and the processing industry, within employment terms (Figure 13).

Figure 12

Distribution of economic companies by region, 1993, 1996, %

Note: companies with legal entity in 1993

Source: Területi Statisztikai Évkönyv. 1994, 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author).

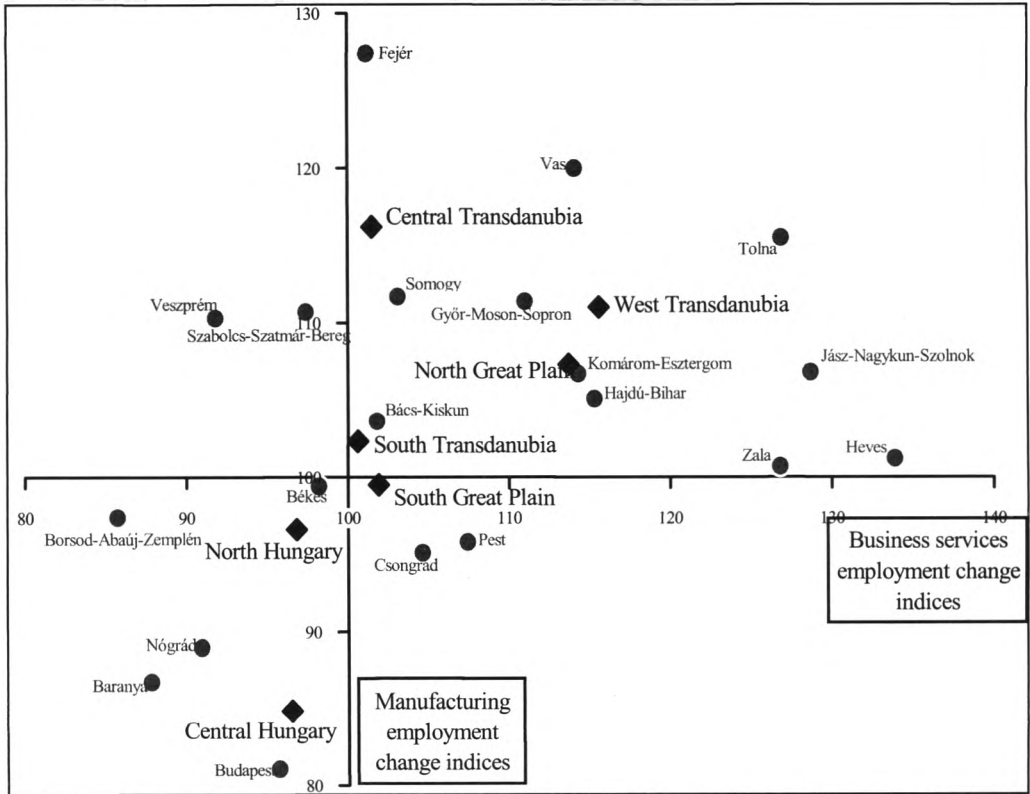
Since the chart shows the relatively slow speed of the temporal changes during the period 1993-1996, the initial situation may have effects on the development of the positions. (In the case of Budapest and the Central Region, the restructuring of the economy had mostly taken place by that time. Counties and their regions, not favoured before in the field of business services, showed a very rapid development etc.). On the whole we still cannot say that the “stage-effect” of the formerly achieved development, or the adaptation process, fails to deliver development of a “characterless nature” to the sectoral structure in the majority of the regions.

The slow re-birth of the processing industry is especially striking. In the transition period, the re-organisation of industry is a generally important issue of the economic structure. The market selection and decline accelerating from the mid-1980s was mostly over by 1993-1994, as a “single action” of the shift to the market economy. Now was the time for new structures to evolve, on an organic and qualitative basis. The new type of industrialisation is also a criterion in terms of the development of tertiarisation, because besides the demand of private consumers, it is the development of the primary and secondary sector that creates a demand for the services. The development of the tertiary sector stops without the development of the primary and secondary sector.

The unsettledness of the economic structure, the co-existence of old and new lines of force can be seen in the sectoral structure of the regional GDP (*Figures 14–16*).²

² Official data of the sectoral structure of regional GDP are only available for 1994 at the moment.

Figure 13 *Index of the number of employees in manufacturing and financial-business services (% of national average), 1993–1996*



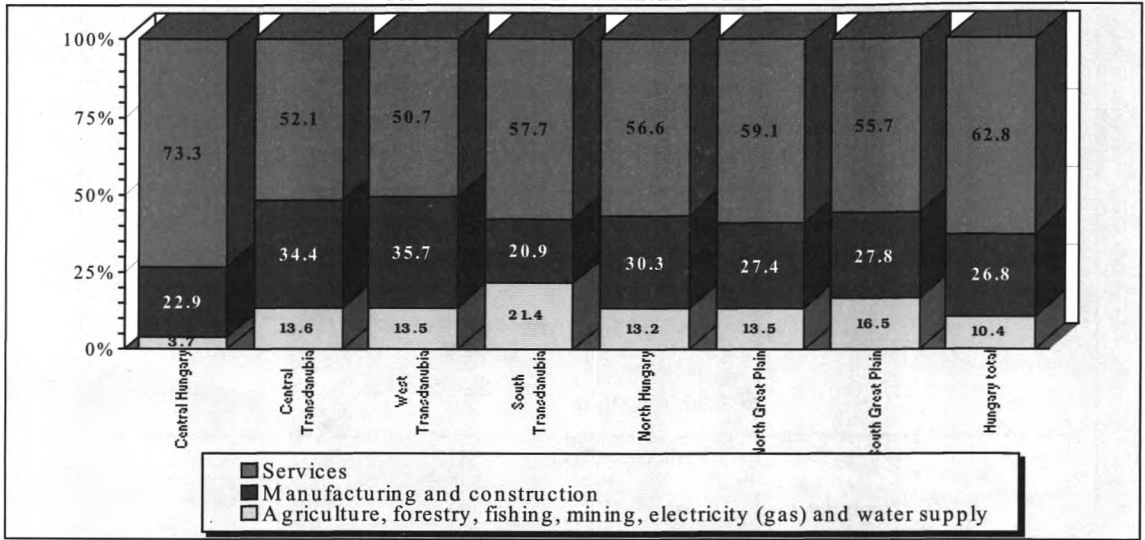
Source: Területi Statisztikai Évkönyv. 1994, 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author).

If we compare the proportion indices to the 1993 columns of the table showing the employment structure (see *Table 8*), these old and new lines of force “become visible”. The income-concentrating transfer role of business services becomes significant (its contribution to GDP exceeds its share from employment several-fold), but the relative performance surpluses of agriculture, forestry and fisheries still exist. The contribution of communal services to the GDP is unproportionately low compared to their share of employment. The adaptation of the processing industry to the new market conditions is not free from problems, either, as the proportion of quantitative performance is still higher than that of a qualitative-type performance.

All these factors combine to shape the regional distribution of GDP. In those regions where the reconstruction of the processing industry and the parallel expansion of the business services has not yet occurred, it is still the agricultural and communal services that have a leading role. Thus their GDP positions are weaker, whereas the situation is just the opposite in the core areas of development. A comparative visual

Figure 14

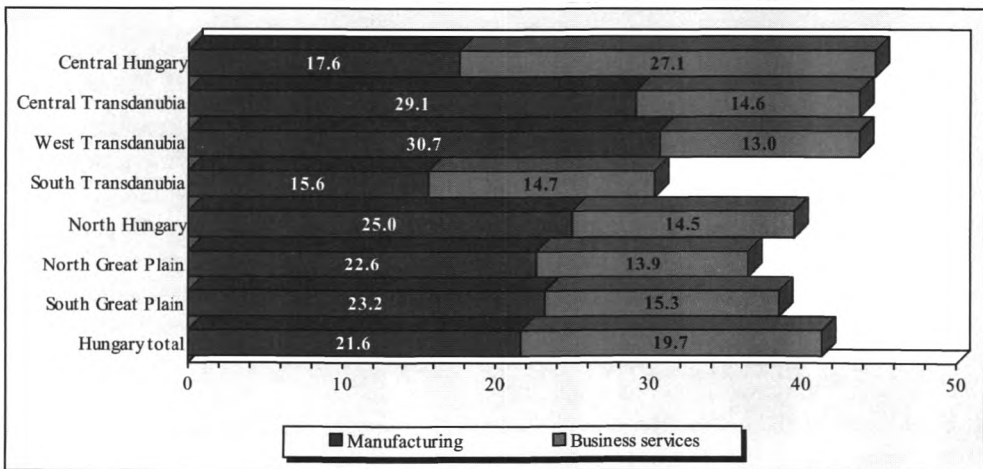
Distribution of GDP by economic branch, at a basis price, 1994, %



Source: Területi Statisztikai Évkönyv. 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by author).

Figure 15

Share of regional GDP in sectors typical of modern structures, at a basis price, 1994, %

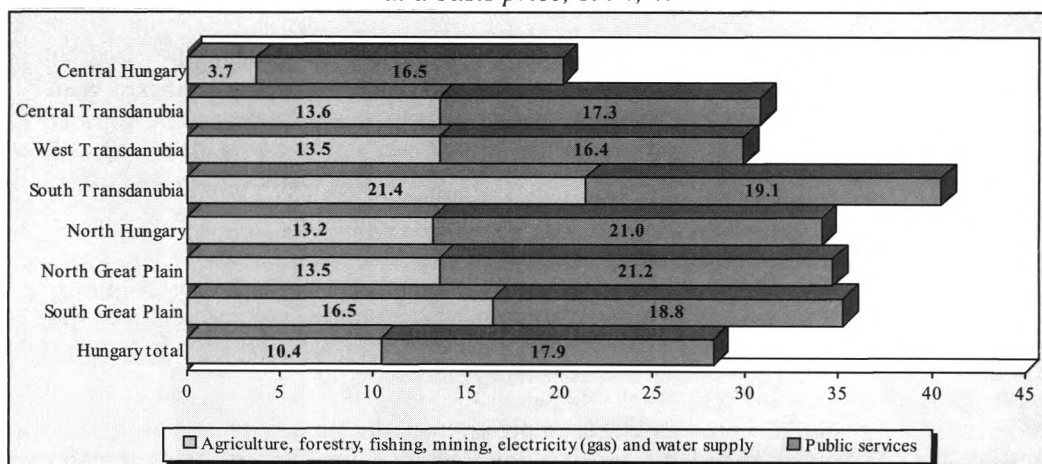


Source: Területi Statisztikai Évkönyv. 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author.).

analysis of Figure 15 and Figure 16, shows the to be almost perfect complementaries of each other. In the relationship between regional economic structure and regional economic performance, it is already the global principle that prevails. In a structural sense, the rise of the regions depends on the development of the processing industry and business services. This is the strategic challenge of regional restructuring when switching to qualitative development.

Figure 16

*Share of regional GDP in the less dynamic sectors,
at a basis price, 1994, %*



Source: Területi Statisztikai Évkönyv. 1996. Budapest. Központi Statisztikai Hivatal. Various pages. (Calculations by the author.).

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REGIONAL 'WINNERS' AND 'LOSERS'

LÁSZLÓ FARAGÓ

1 Introduction

Development or decline does not appear in space as a homogeneous process, but through different time scales or intensity. Uneven spatial development is a basic concept to regional studies; 'equilibrium' as assumed in economics can only be interpreted as an unattainable ideal from a regional studies point of view. Unevenness is not so much caused by differences arising from local/regional conditions creating a rather varied spatial fabric as by the accumulation and long-term survival of disadvantages in some regions.

The significant changes that had been initiated before 1990 and have continued ever since in the economy and legislation of Hungary have affected localities and regions in diverse ways. Trends prevailing in the 1990s have either reinforced one another or have modified the first impacts of the changes. In this way, these trends have either fostered or hindered the realization of the objectives set by various regions. Globalization and the transformation into a market economy, together with the processes thereby generated (e.g. privatization), all led to the consequence of accumulating either the advantages or the disadvantages of the past. Macro-level regulation and other measures taken by the national government had also contributed to these processes, although specific tools of regional policy (regional planning, subsidies, etc.) were used to offset undesirable effects. It is a striking spatial consequence of all these effects that given regions experienced faster development through various stages of socio-economic development, while others became losers in the context of the same processes. The situation was very much the same during the 1990s, except that negative processes could spread with relative rapidity and without obstruction, while economic renewal and the emergence of up-to-date institutions showed strong regional differences.

This can be attributed to the fact that *different, territorially separated communities have to face both internal and external difficulties (lack of resources, problems with adapting to a new situation on the one hand, and changes in the world market and central regulation, on the other) and are not equally capable of mobilizing their internal resources or attract external resources in order to achieve their objectives.* These differences in regional conditions and their consequences may appear in various forms. They can be expressed in the price of real estate, the availability of suitable labour, expected return on investment, etc.

It is generally true that regional underdevelopment or the level of development is a historical process, which usually takes a long period of time to change. Differentiated regional impacts can be either long-lasting (taking effect continuously) or temporary. Unfortunately, macro-level regulation changes rather frequently and therefore its consequences are hard to predict and are usually felt in the short-term. It is typically those regions that are quick to respond to change that can benefit from the potential advantages of this post-1990 situation. They typically include larger regions and towns. Differences in available infrastructure represent more prolonged advantages or disadvantages. Changes to the complex of regional conditions are expectably even slower.

2 The traditional East-West division is getting replaced with the emergence of new development zones

The vision of the country getting split into two parts is a recurrent element of both political rhetoric and specialised literature. According to this vision, the country has already split into two strikingly different parts, a well developed western region and an underdeveloped eastern one requiring support. There can be no doubt that the north-eastern region of the country is well behind the others and at a disadvantage, but the *situation is more complex than generally depicted.*

No region of the country could be described as developing or declining, being a loser or a winner. Large regions are not homogeneous; individual counties, or smaller regions within them, may show significant differences. Differences are found both within the Transdanubian and the Eastern regions, although their extent is not identical. The extent to which the country faces the 'danger of splitting' greatly depends on the criteria used in the analysis. The processes started by the change in the regime have not come to an end yet. The number of investments by region has been rather limited if taken on an annual basis, and the performance of the economy has been so unsteady that even a single event may change regional differences. In contrast to conventional notions, North-East Hungary is not a loser in every respect. The counties in this region have strongly benefited from the support allocated for regional development,¹ especially Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg counties.

With the above considerations in mind, I am not going to make the 'customary' comparative analysis – which has been widely published already – but use a different approach to explore the macro-regional differences. Formerly, there were basically two dividing lines in Hungary: one ran historically along the Danube in

¹ Between 1990 and 1998, a vast majority of the resources available from the Regional Development Fund and the PHARE programme was channelled into this region; in the allocation of other funds, this region was also favoured well beyond the proportion of the population living there.

the north-south direction, the other in the central axis of the country along the east-west direction (See *Figure 1*). Transdanubia has traditionally² been more highly developed than the Great Plain and this advantage was maintained under socialism as well, maintaining the dividing line of development along the river Danube. The northern industrial and energy axes and the northern part of Hungary in general always enjoyed priority in socialist industrial development policy. (Some industrial and extraction ventures did occur in the south, but these were exceptional cases; the north-eastern counties were allocated fewer industrial projects due to the lack of appropriate conditions.) *Since allocation of resources for development was closely linked to industrial projects (e.g. large house-building projects), it seemed justified to consider the north as the winner of socialist industrialisation.*

After the change of regime, in the 1990s, the above-described macro-regional division of the country got modified to some extent. Favourable changes (foreign investments, the proliferation of small businesses) extended from the North-West to the South-West, while unfavourable processes (like unemployment) spread from the South-West to the North-East. This has led to the emergence of some new axes and a new development zone. The vertical axis shifted to the east of the river Danube and the axis of industrial development broke halfway. A new phenomenon, the north-south difference in the level of development has become considerably more striking in Transdanubia, while in the east of the country the process went the other way round.

Data on regional GDP values and unemployment also show significant differences (*Figure 2*). A new development zone seems to be emerging along a North-West/South-East axis (*Figure 1*). This process is expected to be further strengthened by infrastructural development projects that have either been completed or are currently under way (e.g. the M1 and M5 motorways). Within this zone, the areas near the western border of the country and the metropolitan area of Budapest have become most valuable. It can be stated that this zone is, beyond doubt, a winner during the present economic processes. The Hungarian axis of development shown in *Figure 1* is linked to the main lines of European development. On the map it can be marked as a 'blue star', or one arm of the 'red octopus', in other words it is already a part of the 'European grape'.

Which regions can be considered as the real losers? The area beyond the river Tisza, and particularly Szabolcs-Szatmár-Bereg county have always suffered various

² In the Roman age it was the river Danube that separated the civilization of the Roman Empire from the barbaric territories. Under Turkish rule, the Great Plain lost a significant part of its population. Urbanisation, the development of the bourgeois middle class was a significantly faster process in the North (mainly in the areas that today belong to Slovakia) and in the western part of the country, where conditions were also more favourable for industrialisation.

Figure 1

Changes of development axes in Hungary (winner and loser areas)

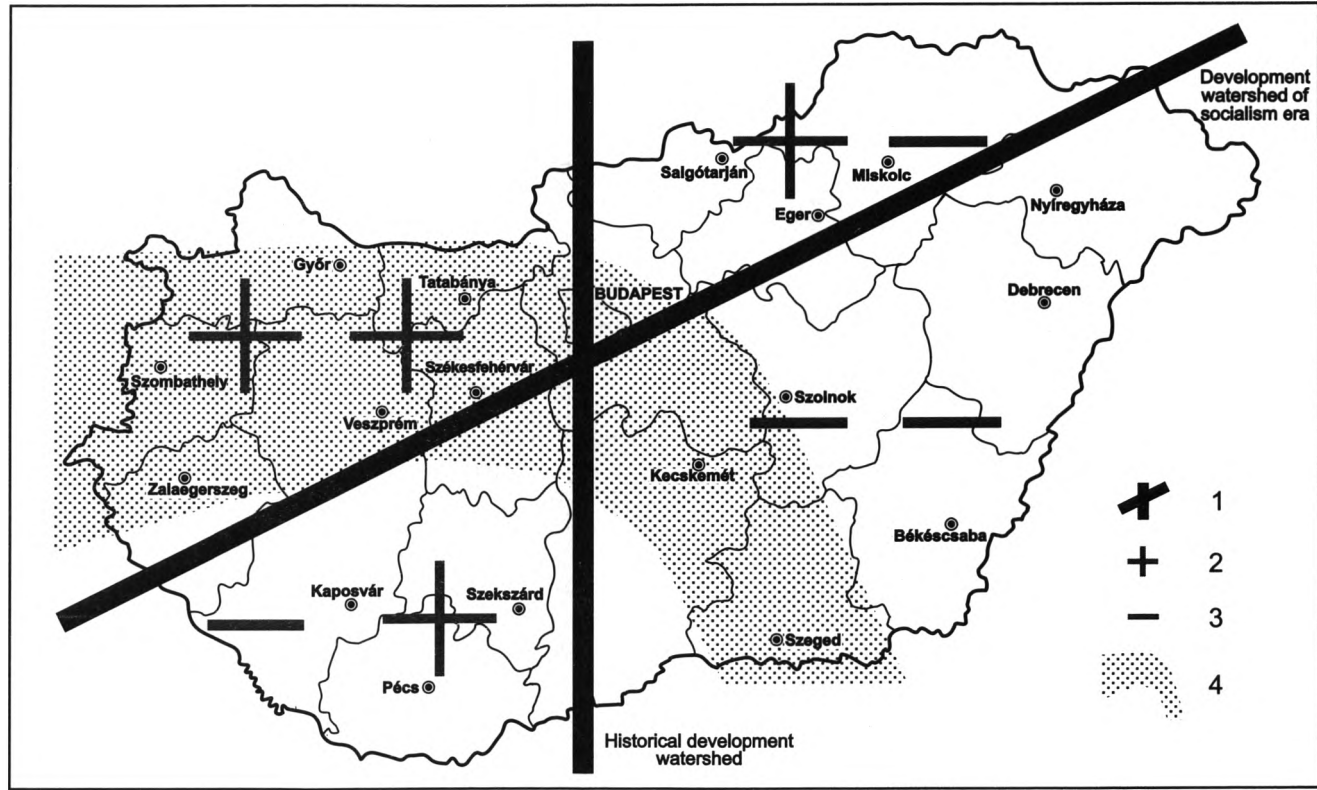
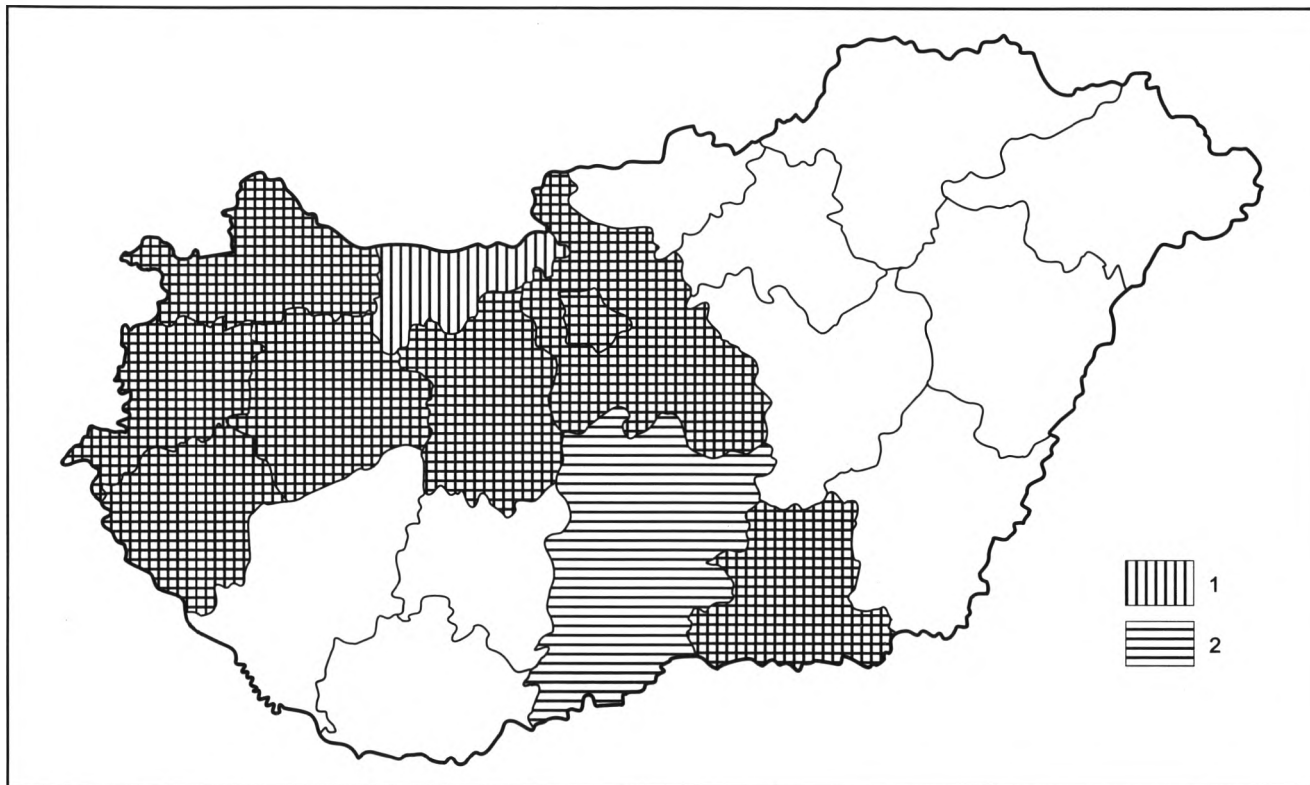


Figure 2

Data of regional GDP and unemployment

Key: 1 – Per capita GDP is over 80% of the national average in 1996 (Budapest and Pest county are shown together, Tolna county is corrected with the data of the Paks Nuclear Power Plant); 2 – Unemployment rate does not exceed the national average at end of 1994–95–96.

Source: Regional Statistical Yearbook, 1996; data edited by the author.

disadvantages,³ so its relative is not a new phenomenon, or the result of recent changes. In many respects (e.g. water supply, canalisation, telephone, gas supply, number of businesses), this relative underdevelopment has decreased and the position of this region within the hierarchy shows a certain degree of improvement year by year. The number of flats connected to public utilities increased over a period of ten years (1985–95) to such extent that the county's negative distance from the national average was reduced to one third of the previous value. This trend can be observed in several other aspects of regional development. In the North or the Great Plain the shortfall in the number of flats with running water fell to 2.9% from the former 6.1% between 1985 and 1995 and canalisation proceeded at the same pace as the national average. The growth of per capita GDP was also in agreement with the national average between 1993–1996.

The main losers in the last decade have been former industrial centres that have not been capable of coping with the structural transformation. These regions *used to enjoy various privileges before collapsing into economic depression*. Their population suffers not only from the loss of industrial activities and unemployment but also from environmental damage left behind, rundown residential areas and unfavourable demographic trends, which make the situation even worse. These regions include primarily Borsod, Nógrád and Baranya counties. Some depressed former industrial towns (like Tatabánya) that lie in the new development zone have better chances of finding a solution to their problems than the area of Borsod, for instance. Yet Baranya county also faces a rather slow pace of development. The main asset that can contribute to the development of the depressed areas is the availability of infrastructure even if it is rather obsolete.

It would be particularly important to *establish some focal points of development in the regions outside the development zone*, but the present subsidisation policy of regional development is not working in this direction. The regional policy of the last years has focused on underdeveloped (rural) areas and rural development is expected to gain even stronger priority in the near future. In contrast with the attitude of the European Union, urban development (except for depressed areas) has not been included among regional priorities. There is a danger, however, that the failure to initiate innovation in these centres, will not only prevent them from stimulating the development of their environment, but will contribute to their decline.

³ The 1986 review of disadvantaged regions listed these countries in this category and government programmes were later launched to help these regions catch up with the rest of the country.

3 Budapest, the capital, wins over the countryside

Throughout its history, the capital has always been a winner of regional development processes, even if the advantages enjoyed by a metropolitan area generate additional costs as well. Contrary to appearances, this process has continued in the 1990s, and some parts of it have even intensified.

In Budapest, the performance of the economy, the accumulation of capital and the incomes generated considerably exceed the level that the size of its population would justify, while some advantages created in other parts of the country are also realised here. In 1996, the per capita value-added was twice as much as the national average, and 35% of the GDP was registered here. In terms of up-to-date services (e.g. banking), of the emergence of new, innovative businesses and of the dynamism of structural transformation, Budapest is well above the average of the countryside. Although the concentration of foreign investment has slowed down recently, more than 60% of all foreign investment was made in the capital in 1996. The concentration of R&D, financial and information activities in Budapest continued in the 1990s at an accelerating rate. About 60% of all research and development experts work in Budapest, and two thirds of the total research budget is spent here. The density of businesses in 1996 was 70% higher in Budapest than the national average. More than half (58.8%) of the people employed in the business services and 41% of those employed in the financial services work in the capital.

The concentration of decision-making is even higher than that of other economic processes. A typical example is the banking system. In the early 1990s, the number of banks and financial institutions increased rapidly, but with the exception of one, they all have their head offices in Budapest. All that the local branches are authorised to do is to prepare and implement financial transactions, but the final decisions are always made at the head office.

The capital did not suffer from the crisis as much as the rest of the country. Unemployment, the most dramatic social consequence of the changes, was the easiest to tackle in Budapest and its zone of gravity. This is due to the fact that the conditions for introducing the market economy were created and developed here much earlier than elsewhere.

All this leads to the expectation that the capital will most probably be the first to overcome the difficulties caused by the changes, will benefit from them more than any other region and become the greatest winner of the transformation in spite of the problems it has to cope with. There is nothing wrong with this fact in itself, but it seems justified to raise the question of whether Budapest could more efficiently function as a focus of development in Central Europe with more evenly developing regions in the country.

4 'Changing' dichotomy of urban and rural areas

The 'opposition' of urban and rural areas is a historical category that changes in its meaning as time passes, but without any hope for its complete disappearance. It would not be realistic to make efforts at the elimination of the differences, nonetheless new approaches are needed to handle the differences properly. 'Rurbanization' and 'counter-urbanization' are not typical trends in Hungary yet, but they can contribute to the elimination of the differences between the two types of localities.

In the 1990s, villages experienced significant changes in their access to resources for development. In a lot of villages the transformation of the financing and subsidising systems generated more infrastructure and institution development projects than did the former regime during the past two to three decades. Unfortunately, local leaders tended to overestimate trends and development projects led to indebtedness and, in some cases, bankruptcy. In towns, former large-scale housing projects and related development projects were stopped. Although the strict measures introduced in the 1970s merging or closing down various institutions mainly afflicted villages, the downsizing of the institutions at present is primarily concentrated in towns. These trends also contribute to the rapprochement between rural and urban areas.

The differences between town and village are more striking in the case of bigger provincial towns and smaller villages. The multi-functional centres – not only the five large towns – have confirmed their place in the hierarchy. Some of the former industrial towns have also maintained their income-generating and export-producing capacity (Dunaújváros, Paks, Százhalombatta, Tiszaújváros, etc.) and have even managed to raise resources for further development.

The crisis of agriculture came as a great shock to villages. Rural areas have always supplied labour to towns, and this is expected to continue in the future as well, causing a lot of hardships, because the level of employment has further decreased in agriculture but the labour made available in this way is not readily converted, due to the low level of its qualification.⁴ Economic depression was most dramatic in predominantly agricultural areas. The lack of stability in the villages is made worse by the fact that no consensus has been achieved about the role of agriculture in the renewal of the Hungarian economy, and the transformation of property relations seems to take a longer time to settle than expected. It is not yet possible to foresee the impact of Hungary's accession to the European Union on Hungarian agriculture, villages, and particularly the regional differences the accession will generate.

⁴ It is true that in some peripheral areas, depressed industrial zones and areas with exceptionally good conditions, the level of employment in agriculture has actually increased recently, but this is considered a temporary phenomenon.

Most of the labour discharged in the towns found employment in the nearly 100,000 companies of legal entity (limited liability companies and public limited companies) and in 437,000 other businesses. The number of business ventures in the villages per 10,000 inhabitants is less than half of the number found in towns.

5 Centre and periphery: attraction and repulsion of resources

The relationship between centre and periphery has been a basic paradigm of regional studies ever since the 1950s. The centres are the winners in regional differentiation processes and peripheral regions and localities are constant losers. This disjunction is equally true for international macro-regions and regions within the country. In Hungary, the capital and the large towns are the focal points of development, although their local governments have recently got into a critical financial position. In North Transdanubia and around the capital they fall within a contiguous zone, creating community and economic clusters (networks) while the whole southern and eastern border region have proved to be the losers, with the exception of the regions around Szeged and Debrecen (their outer peripheries), those agricultural areas under unfavourable conditions, and those regions having poor communication and administrative connections (inner peripheries).

As to the attraction and repulsion of resources, winners are those localities and regions where the export and import of resources has a negative balance, while the losers are abandoned or never reached by labour and capital. From the point of view of the present analysis, it is not simply the balance of migration that counts, but the direction in which the active population migrates. The movement of capital is easily tracked down from the investments and the foundation of companies. It is a particularity of our present stage of development that the main attraction is not the highly qualified labour, but workers (mostly women) who can endure monotony, have low wages and some training, as well as convertible skills.

In the last decade, population growth has been observed only in Pest county and the Balaton region. Data indicate that the smaller a locality, the more probable its population decrease, primarily the proportion of the active population. As a result of this process, the number of small villages with an unfavourable age structure is on the increase, so the problem of tiny villages is getting more and more pressing in Hungary, as opposed to the detached farmsteads. The winners are the centres of urbanisation and the resort regions (mainly around Lake Balaton and the Danube Bend), which are well provided with infrastructure and easier accessibility.

The gravity zones of several small towns and county seats have not been able to attain a favourable position after the change of regime. Even when they manage to attract some investment, these are not stable. Such areas can be the targets of a future, second-stage investment process within the country.

The 'Hinterlands' drained by the capital, Lake Balaton and the larger towns are considered temporary losers in the current development process. From the Hinter-

lands of the centres, resources (both human and financial) are continually drained by the centres and therefore these areas have to cope with increasing difficulty in setting a course of development of their own.

The southern and eastern borderline regions are also listed among the losers of the changes. These regions have not been able to attract foreign capital and even existing domestic businesses are having problems there. In the present political situation, belonging to a borderline region is a disadvantage, not an advantage. This situation cannot be reversed until positive changes are experienced on the other side of the border as well. Government subsidies will not be able to remedy this situation single-handedly. Hungary's accession to the European Union will make it more difficult to cross its eastern border, and then it will depend only on the projects available for those regions whether the disadvantages will further accumulate or not.

The number of operating industrial plants decreased at first in Budapest, too, but this process is more a sign of favourable changes than the indicator of a crisis. In southern and other depressed regions of the country, however, this process seems to be a lasting one.

6 The hierarchy of localities remains unchanged

The above-described advantages and disadvantages are synthesised in the hierarchy of localities in which the localities constitute a vertically articulated hierarchical order. The main criteria include the size (the population and economic performance), the place within the public administration, and the quantity and quality of the services and jobs available. Favourable processes – like a textbook example – are manifest at the top of the hierarchy, and, depending on their nature, move downwards with a certain time lag. This structure also shows certain regional characteristics, e.g. within the same locality category, the North Transdanubian region enjoys considerable advantages.

Over the last decades regional advantages and disadvantages in Hungary have not become apparent within the regional dimension but between locality categories. There is no doubt that some of the formerly typical differences are not as striking today as they used to be, but they have been replaced by new 'qualities'.

The choice of premises on the part of foreign capital and entrepreneurial activity strictly follows the pattern of locality hierarchy. Conditions are the best in Budapest, followed by the large towns while other places are hardly considered at all.

Typically, professional people are concentrated according to the locality hierarchy, thus contributing to the perpetuation of the present situation. Another important aspect of the same process is the emigration of the population from the borderline regions and smaller localities, if they feel more highly qualified than the opportunities locally available.

Larger towns have managed to maintain their former position within the hierarchy, but their development has slowed down considerably. Unless fundamental changes occur in their potential to develop (e.g. a significant increase in local tax revenues, a new allocation system for personal income taxes), life and business conditions may deteriorate to such an extent that in the future they will not only fail to attract, but will definitely repel external resources.

There are differences in environmental damage as well among the members of the hierarchy. At the lower levels, the problems are not so aggravating. The national project for the general supply of potable water is about to be finished, and waste/rubbish disposal problems have been resolved in most of the villages, hopefully not only temporarily; moreover, agriculture does not pollute the environment as badly as before. The higher we move upwards in the settlement hierarchy and the more intensive industrial production becomes, the more worrisome environmental threats can be observed. The cumulative effects and air pollution caused by vehicular traffic lead to serious problems. Environmental pollution is not attractive for investments, especially if the regulations are very strict for newly established businesses. They deter heavily polluting industries which prefer to settle in the third world, while up-to-date companies refuse to settle in polluted regions.

The surviving and occasionally even intensifying hierarchy of localities cannot be expected to slacken unless the quality of the relations between is renewed, and, realising their common interests, localities can get organised into new clusters or networks.

In conclusion, we can state that laws of regional development have no consideration for borders, nor for the political creed of various national governments. In Hungary, changes in spatial structure bring up the same problems as similarly developed regions in the European Union. Globalisation, changes in the spatial sensitivity and regional impacts of the economy have created similar challenges. The solution is the development of a regional policy in cooperation with the member states of the European Union that can improve the overall competitiveness of European regions and localities, and that leads to increased economic efficiency through external profitability, while employees and local inhabitants have better chances to generate income, and thus improve their quality of life. It should be emphasised again and again that separated, direct tools of regional policy are not capable of changing regional trends; therefore, sectoral policies should develop an improved sensitivity to spatial processes. It is also important to note that the measures of regional policy should not be reduced to functioning as posterior correctors of unfavourable phenomena, but, aside from asserting fairness, they should play an active role in the development of the economy.

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THE EFFECT OF THE SOCIO-ECONOMIC TRANSITION ON THE HUNGARIAN ENVIRONMENT

ISTVÁN FODOR

1 The environmental heritage of East Central Europe

The environmental conditions of Hungary, in common with other East Central European countries, deteriorated by a significant extent in the second half of the 20th century. This is evidently connected to the forced extensive industrialisation of the territories under Soviet influence after World War II: economic development squandered natural resources, resulting in a considerable increase in air and water pollution as well as unlimited growth in the amount of waste produced. A particular hazard is the irresponsible disposal of hazardous wastes, which in many cases does not even seem illegal due to the low level of regulation. In Hungary only 3.9% of the territory had been heavily polluted by the 1970s and 1980s, but these lands were home to 28.6% of the population. Polluted and slightly polluted areas amounted to 13.2% of the territory of Hungary, but more than half (52.3%) of the population lived in these regions. This is clearly illustrated in *Figure 1*. The seriousness of the problem is even clearer in *Table 1*, which shows the proportion of the population exposed to environmental pollution in the 1980s.

The first Act on Environmental Protection, which was made in 1976 in order to preserve the human environment, provides for the protection of the flora and fauna, but also that of the air, water, soil and the built environment. The changes in the socio-economic system and the transition to the market economy, however, present a new challenge to our environmental policies. The new ownership patterns do not automatically mean a more effective protection for our environment. It is not at all easy to discern whether the penetration of the private economies moderates or increases environmental threats. It is a fact in Hungary and East Central Europe that during the period of the economic transition thus far, the commercial influence of those sectors and companies which used to pose the most serious threats to the environment have weakened considerably. This, *ceteris paribus*, could decrease the volume of hazardous emissions; but this alone does not represent significant environmental improvement.

In contrast to these relative environmental improvements, negative effects connected to the transition have also occurred. The scaling-down of large-scale industry and agriculture has resulted in a massive reduction of employment. Jobs are important in both business output and employment-creation, and the massive influx of working capital has initiated employment in technologies which are environmentally harmful, reinforcing the phenomenon known as the “backyard” effect. In the economically more advanced countries, environmental policy is more successful and regulations are stricter; thus there is a real danger that one of the factors motivating the working capital to move to the less developed countries is less resistance to pollution-effects. Thus it is often not high technology that we receive but the polluting technology of secondary-quality industries.

Research findings suggest that the penetration of the private economy in Hungary has not increased environmental consciousness, at least not so far.

The rapid growth in the number of enterprises, privatisation, and the liberalisation of business-regulation definitely increase the potential environmental burdens.

There are many examples in the new production and consumption patterns which show that the liberalisation and deregulation of the economy have clearly exacerbated the “backyard effect”. Thus the large-scale import of environmentally-hazardous materials has increased, outdated technologies have moved here from economies where regulations are stricter, as well as other, lesser, effects. Effective environmental protection is not possible in our present economic circumstances. Given the developing market economy, extra responsibilities, for observation, monitoring and regulation have become necessary, in addition to the challenge of modernisation. The new Act on Environmental Protection, enacted in 1995, was framed to enable these tasks. The protection under this act offers more than the basic elements (Act No. LIII. of 1995).

Table 1

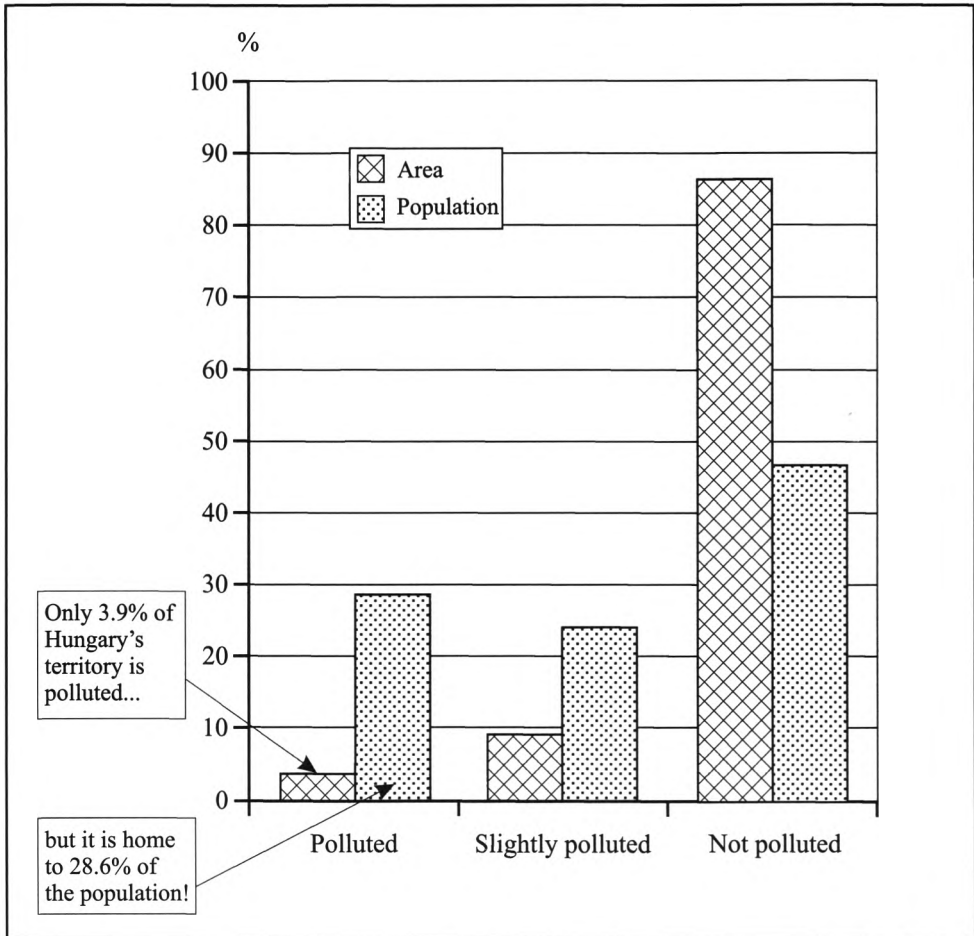
The number of Hungarian people exposed to environmental pollution in the late 1980s

Denomination	Slightly exposed	Seriously exposed
Food	4,700,000	5,800,000
Water	7,000,000	3,000,000
Air	1,500,000	3,200,000
Soil and waste	5,800,000	0
Noise and vibration	1,900,000	400,000

Source: Fodor, I. 1991: A környezeti ártalmak egészségügyi hatásainak közgazdasági vizsgálata. p. 60.

Figure 1

The proportion of the polluted and slightly polluted areas in Hungary compared to the total territory of the country, and the share of population living there in proportion of the total population



Source: Department of Protection of Environmental Elements, Ministry of Environment and Regional Development.

2 Improvement-trends in environmental quality in Hungary

Hungary's environmental policy at the end of the 20th century can realistically embrace a shift towards sustainable development. External factors dictate this, in particular the need to comply with the strict environmental requirements for ac-

cession to the European Union. The Hungarian economy has to achieve this compliance besides performing well in a competitive market. The new regulatory system, more favourable than its predecessor, can foster a more successful environmental policy. Act No. LIII. of 1995 on Environmental Protection guarantees this and, together with the other acts, government decrees and regulations, is becoming more and more strict and effective in protecting the values of our natural environment for the generations to come.

3 Air-pollution in Hungary

Historical data reveal that air-pollution in Hungary first became a problem in the mid-1930s. The sulphur and carbon-particle content of the air gradually increased, and by the late 1950s had increased by some 50% in the Budapest region, compared to earlier pristine conditions.

A natural concomitant of the forcibly-imposed industrial development and large-scale agricultural production under the previous regime was the growing burden on the environment. Urbanisation accelerated and the number of cars increased considerably. Each of these factors had a negative influence on air-quality (in Hungary), not to mention their synergistic effect.

The most polluting sectors are energy production, metallurgy, the construction industry, the chemical industry and transportation. The economic restructuring attempted in the 1980s and 1990s did not bring any significant change in this respect. We still have not managed to build a really up-to-date industrial structure. Although the production value of traditional heavy industry, struggling with economic crisis, has decreased significantly, leading to a reduction in its pollution-effects, a more active approach is still required. Those business transactions potentially hazardous to the environment, e.g. foreign trade privately initiated, job creation, the opportunity to increase hard-currency income, are powerful forces in the economy, so it is rarely possible to identify the most damaging cases. With the economic crisis growing ever more serious, environmental considerations are forgotten in the drive towards job creation.

The identification and substitution of the materials, technologies and consumption patterns hazardous to the environment is a daunting task. This is not merely a question of dealing with a small number of questionable companies and a sectoral lobby or two: there are tens of thousands of business actors and hundreds of thousands of consumers to be dealt with.

Heavy industry in Hungary was predominantly located along the so-called "industrial axis", following the location of natural resources and the historical and socio-economic conditions during the period of industrialisation. The major junctions of this axis are the Borsod industrial area, the Nógrád industrial area, the Budapest agglomeration, and the industrial regions of North and Middle Transdanu-

bia. The occurrence of air-pollution is thus highest in these areas, creating a region with dangerously pollution-levels along a Northeast–Southwest industrial axis of the country.

4 Changes in the constituents of air-pollution air in Hungary

The quality of the air in Hungary continued to deteriorate until the mid-1960s. This was especially the case along the Northeast–Southwest industrial axis, which was the 'cradle' of Hungarian heavy industry, from Miskolc via Budapest to the Veszprém–Tatabánya industrial region. The concentration of sulphur-dioxide, however, has decreased continuously since 1964. In *Table 2*, we can observe this process by analysing the main sources of pollution.

Table 2

*Sulphur-dioxide emission trends in Hungary
(kilotons/year)*

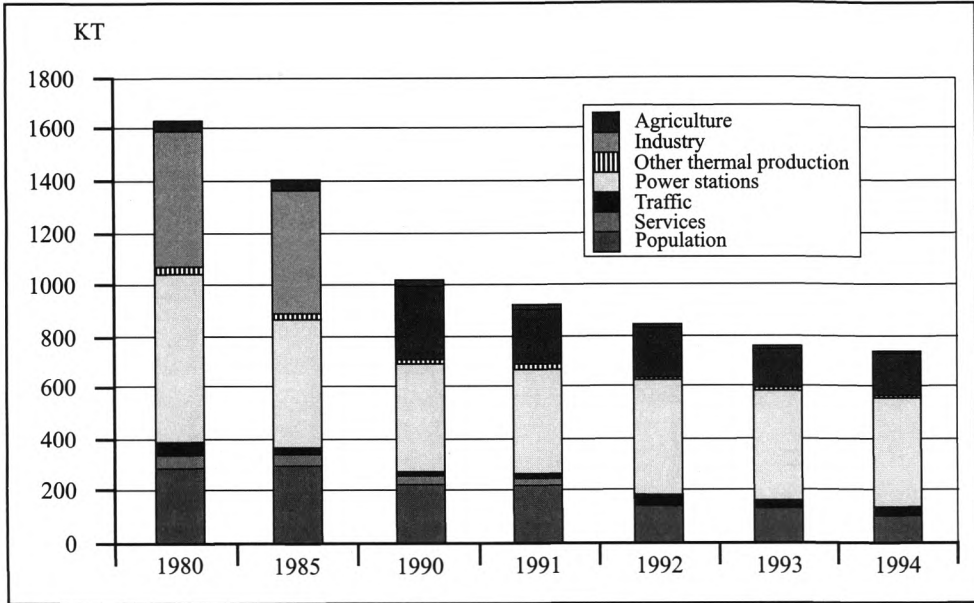
Sector	1980	1985	1990	1991	1992	1993	1994	1995
Population	290.6	303.5	222.0	209.2	127.6	127.4	96.8	91.1
Services	44.9	36.7	29.0	34.2	27.0	18.0	25.1	15.4
Transportation	49.0	21.1	16.0	13.4	12.9	7.6	7.4	7.5
Thermal power stations	654.7	504.0	423.0	407.5	442.7	426.8	423.2	435.7
Other heat generation	33.3	21.9	12.0	13.2	13.7	15.5	13.4	10.5
from heating			268.0	203.9	182.4	139.8	153.9	122.6
Industry	522.2	487.3	–	–	–	–	–	–
technological			18.0	15.5	10.0	10.0	9.0	8.0
Agriculture	38.1	29.1	22.0	16.0	11.0	12.2	12.2	14.1
Total	1,632.8	1,403.6	1,010.0	912.9	827.3	757.3	741.0	704.9

Source: Kereszty, A. (ed.) 1998: *Tények Könyve*. p. 167.

The trend of sulphur-dioxide emission is definitely favourable according to the data in *Table 2*, as it decreased by more than 50% from 1980 to 1995. As a result of the – already mentioned – decline of heavy industry, air-quality improved in some formerly seriously polluted areas (Borsod industrial area, Ajka, Tatabánya, Vác etc.).

Power stations played an important role in this favourable evolution (their pollution-effect was reduced by 33%). Besides heavy industry, power stations have always been and still are the biggest SO₂ polluters of the air: in 1995, power stations (especially the coal-fired ones) were still accountable for more than 60% of the total SO₂ emissions in Hungary. The SO₂ pollution of the air in Pécs is 99% due to the Pécs Power Station, and this same power station is responsible for 98% of the total SO₂ pollution of Baranya county. Another significant source of pollution was household-heating, which also showed a considerable decrease during the 15 years reviewed (69%). The decline of pollution can be seen in all sectors, although it is not always so striking. The national tendencies are shown in *Figure 2*.

Figure 2

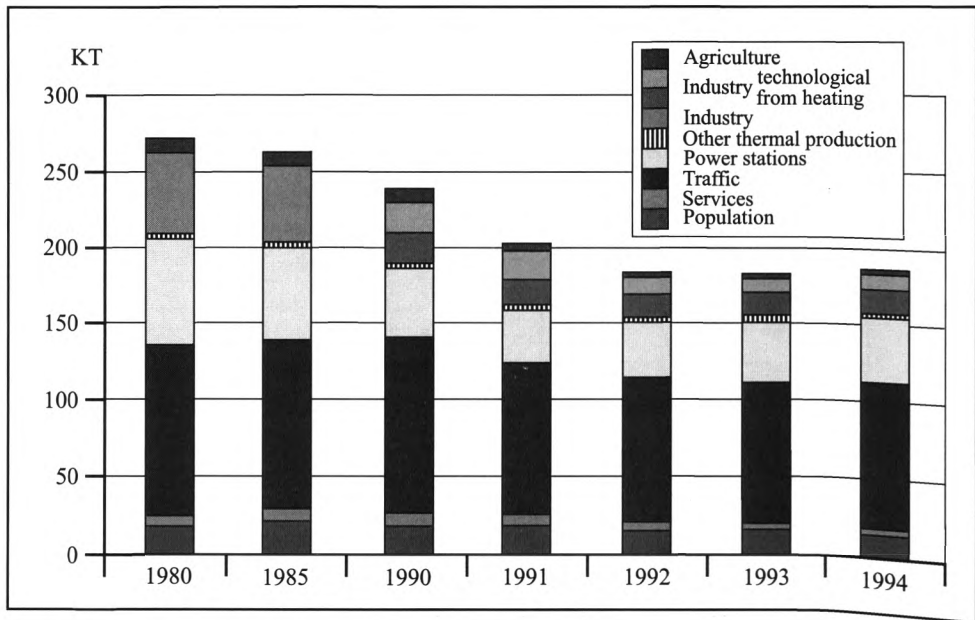
Sulphur-dioxide emission in Hungary between 1980 and 1994

Source: The Environmental Programme of Hungary.

Pollution by nitrogen-oxides is a more complicated situation. Besides a slight decrease in the pollution of Hungary overall (*Figure 3*), the nitrogen-oxide load in the larger settlements has grown. This is due to the growth in car traffic, because all other polluting sectors decreased their nitrogen-oxide emissions to a large extent during the period 1980-1995 (*Table 3*). The air pollution generated by traffic has become a serious threat to the environment. In certain settlements, 60 to 80% of all air pollution derives from this source. This is particularly the case with carbon-monoxide emissions (*Table 4*), more than 50% of which was related to road-traffic in 1994.

Vehicles account for the highest emissions of almost all pollutants, but it is especially striking in the case of carbon-monoxide, carbon-dioxide and lead pollution. Recently, lead pollution has caused a serious problem along the busier roads of the larger settlements. Lead became absorbed by suspended dust and repeatedly disturbed by vehicle traffic, so the measurement-levels far exceeded the threshold of danger to health. In these settlements, lead-levels in the blood of young children was especially high. With the increasingly frequent use of unleaded petrol, lead emissions have improved in recent years (*Figure 4*).

Figure 3

Nitrogen-oxide emission in Hungary between 1980 and 1994

Source: The Environmental Programme of Hungary.

Table 3

The trend of nitrogen-oxides emissions in Hungary (kilotons/year)

Sector	1980	1985	1990	1991	1992	1993	1994	1995
Population	18.2	21.5	19.0	18.9	14.9	14.5	13.6	13.5
Services	7.1	7.7	7.0	6.4	4.8	4.8	4.7	4.8
Transportation	111.3	110.5	116.0	98.4	94.3	91.7	94.2	101.4
Thermal power stations	69.0	61.6	45.0	35.3	37.3	41.3	42.2	40.9
Other heat generation from heating	4.1	3.8	3.0	3.5	3.7	4.2	4.2	3.4
Industry technological	53.3	48.8	—	—	—	—	—	—
Industry from heating	—	—	20.0	16.6	15.0	14.1	15.8	13.8
Agriculture	9.9	8.6	7.0	5.0	3.2	3.4	3.3	3.2
Total	272.9	262.5	238.0	203.1	183.2	184.0	187.5	190.0

Source: Kereszty, A. (ed.) 1998: Tények Könyve. p. 167.

Table 4

*The trend of carbon-monoxide emissions in Hungary
(kilotons/year)*

Sector	1991	1992	1993	1994	1995
Population	135.85	75.56	75.25	58.09	53.69
Services	2.55	1.93	1.77	2.17	1.81
Transportation	486.98	490.20	451.80	437.2	448.90
Thermal power stations	18.42	17.99	17.65	16.79	18.30
Other heat generation	1.15	1.21	1.36	1.37	1.09
from heating	9.05	8.17	7.34	7.81	6.54
Industry	–	–	–	–	–
technological	258.15	240.00	240.00	250.00	230.00
Agriculture	1.24	0.87	0.94	0.89	0.97
Total	913.39	835.93	796.11	774.32	761.30

Source: Source: Kereszty, A. (ed.) 1998: Tények Könyve. p. 166.

An analysis of the sources of emissions is very interesting (Table 5).

Table 5

Emission from traffic in Hungary in 1995 (kilotons/year)

Denomination	CO	CH	NO ₂	SO ₂	Pb	Particle	CO ₂
Vehicle emission	443.97	69.80	86.72	6.63	100.15	16.71	6 620.80
Railway emission	1.42	0.47	6.58	0.39	0.00	0.05	294.82
Water traffic	2.98	2.09	7.92	0.45	0.00	0.71	436.35
Ferihegy, airport	0.54	0.21	0.20	0.01	0.00	0.01	110.02
Total	448.90	72.57	101.42	7.49	100.15	17.48	7,467.99

Source: Source: Kereszty, A. (ed.) 1998: Tények Könyve. p. 162.

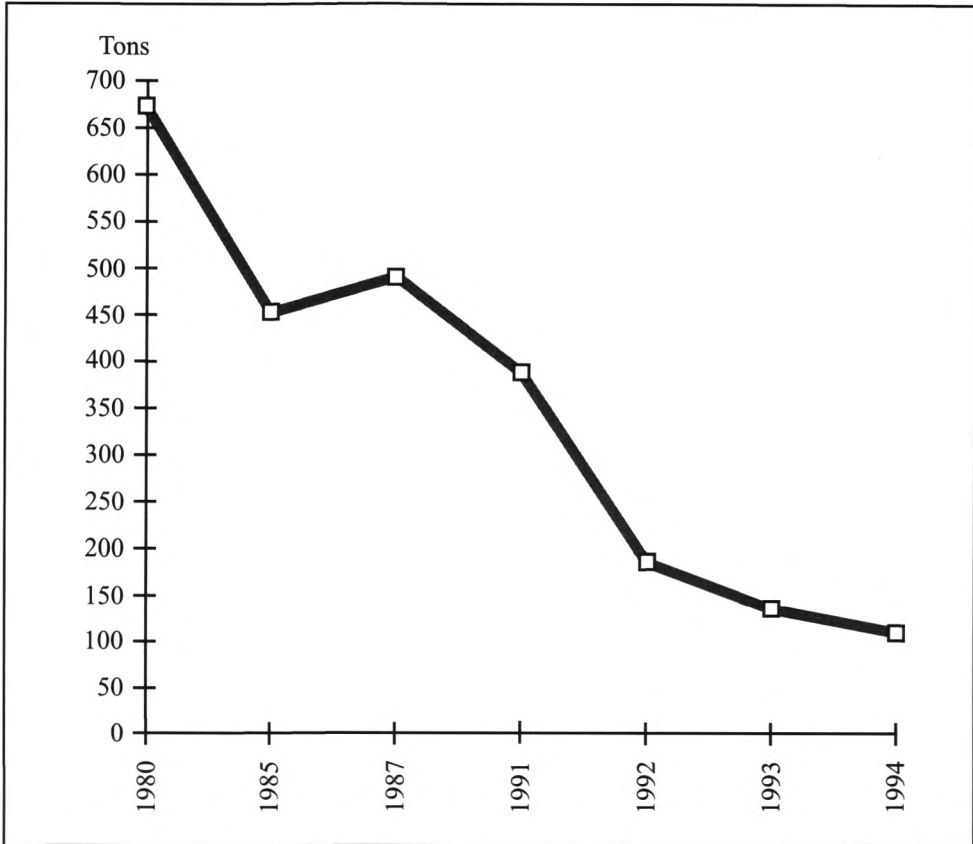
Air-quality was also seriously affected by particle emissions. The national average of particle emission increased continuously between 1964 and 1975. In 1960, the national average of particle-pollution in Hungary was 170 tons/km²/year, but in Pécs, for example, it reached 1,350 tons/km²/year, as an “effect” of the power station (Figure 5).

The industrial axis is still heavily polluted, as are the agglomerations of Győr and Pécs. The Beremend area is a special case, due to the quarries at Nagyharsány and Beremend and the cement factory operating here.

Among the particle-pollution factors in Hungary, the power stations and cement factories still take the leading role, although particulate-emission has been significantly reduced in recent years by the use of electrofilters. Another significant

Figure 4

Lead emission coming from traffic in Hungary between 1980 and 1994



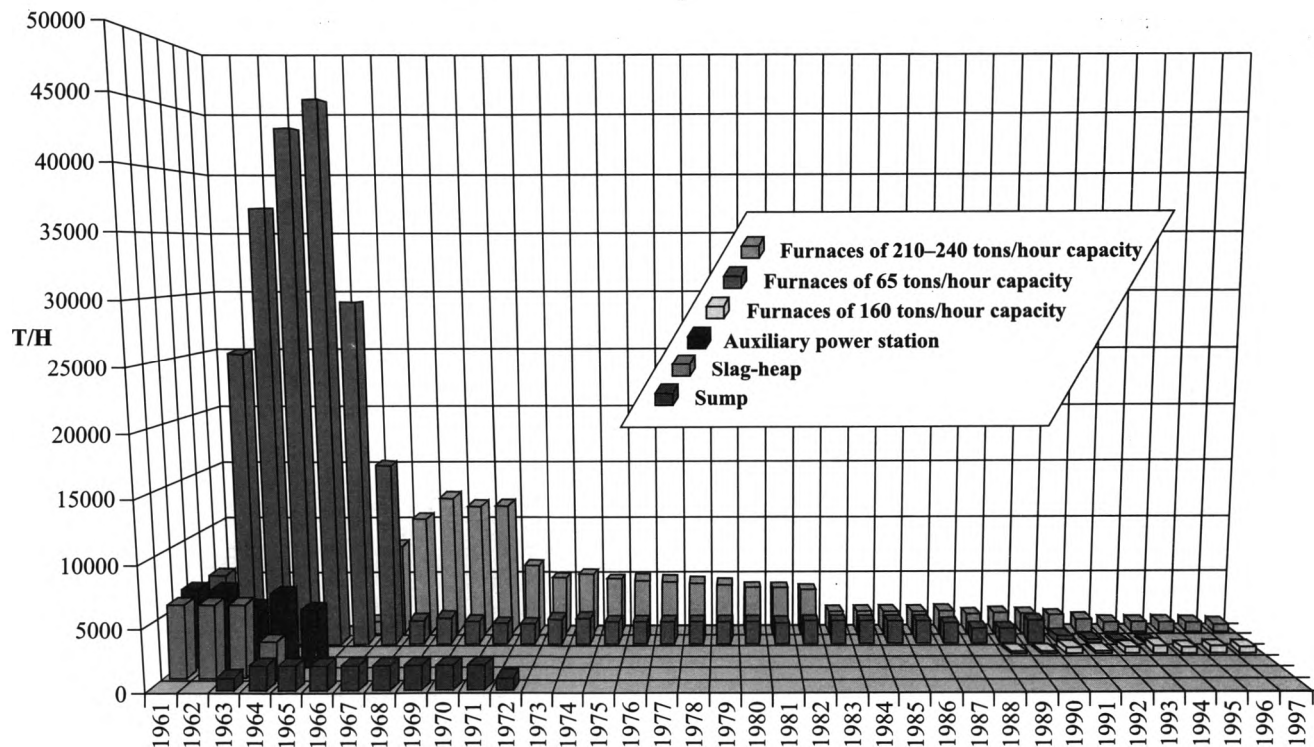
Source: Department of Protection of Environmental Elements, Ministry of Environment and Regional Development.

source of pollution in the settlements is heating, although its detrimental effect on the air has been reduced by a change in the choice of fuel (a shift from coal-fuel to gas), which is well reflected by the decreasing trend of solids emissions shown in Table 6.

Among the *energy saving measures* conducive to environmental protection, an increase in the efficiency of energy-usage is very important. For example, a power-station in Hungary produces an exhaust steam which can supply dozens of surrounding factories with energy. In addition, its waste heat can supply 'remote heating' and hot water for whole town districts. The waste heat of other power

Figure 5

Changes in the dust emission of the Pécs Power Station in 1961–1997



Source: Primary data from the Pécs Power Station.

Table 6

*The trend of solids emission in Hungary
(kilotons/year)*

Sector	1980	1985	1990	1991	1992	1993	1994	1995
Population	75.8	94.3	75.0	66.1	44.6	47.4	44.2	44.2
Services	12.2	13.9	11.0	13.6	11.1	7.2	10.4	6.1
Transportation	19.4	10.8	6.0	11.3	12.2	12.1	12.8	17.5
Thermal power stations	220.0	129.0	33.0	22.5	20.9	19.5	19.1	19.7
Other heat generation from heating	3.2	2.2	1.0	1.5	1.6	1.7	1.6	1.2
			20.0	17.0	14.0	12.4	13.6	11.6
Industry	239.1	232.9	—	—	—	—	—	—
technological			51.0	59.8	49.8	50.0	48.0	47.0
Agriculture	6.9	8.5	8.0	6.7	5.4	6.3	5.9	7.2
Total	576.6	491.6	205.0	198.5	159.6	156.6	155.5	154.5

Source: Kereszty, A. (ed.) 1998: Tények Könyve. p. 166.

stations, besides industrial and communal uses, can be utilised for agricultural purposes (e.g. the heating of greenhouses). The experimental fish-breeding farm, established beside the power station of Százhalombatta, is a world-famous FAO project. An important environmental development in Hungary's energy-management policy was the construction of the 750 kV electricity grid. This was completed by the middle of 1981 and was another step towards linking the Hungarian energy network into the international system. Nuclear energy is also a component of the *transformation of the structure of energy production*. The four units of the nuclear power station of Paks can produce 1,760 megawatt electric power at full capacity. This has been operating since 1987, producing one-third of Hungary's electric power. These factors have all contributed significantly to a decrease in the particulate burden in the industrial axis region in recent years.

Hungary has made serious efforts to ban, or at least decrease, the use of materials damaging to the ozone layer, especially the different groups of CFC-s (Table 7). This regulatory process, besides complying with international agreements, fulfils the preconditions of EU accession.

5 Water-quality

Overall, water resources and water-usage in Hungary are well-balanced. The country's water-supply will probably be adequate into the next millenium (Figure 6). However, a problem is that the spatial distribution of the water resources and

Table 7

Hungarian usage of materials damaging to the ozone layer (in tons)

Material	1990	1991	1992	1993	1994	1995
Group I.						
CFC-11 (CFC1 ₃)	937	806	690	651	90	96
-11/12 (composite)	734	160				
-12 (CF ₂ Cl ₂)	2,602	1,544	1,090	937	730	422
-113 (C ₂ F ₃ Cl ₃)	100	120	90	62	20	34
-114 (C1F ₄ Cl ₂)	37	30	10	10	8	9
-115 (C ₂ F ₅ Cl)			8	8		4
Total of group I.	4,410	2,660	1,880	1,668	848	565
Group II.						
Halon 1211 (CF ₂ BrCl)	321	255	150	54		
Halon 1301 (CF ₃ Br)	23	20	20	10		
Halon 2402 (C ₂ F ₄ Br)	1			1		
Total of group II.	345	275	170	65		
Carbon-tetrachloride (CCl ₄)	n. a.	320	200	124	29	16
Methyl-chloroform (C ₂ H ₃ Cl ₃)	n. a.	580	447	290	186	90
(1,1,1 Trichlor-ethane)						
Methyl-bromide (Mbr)	n. a.	53	45	77	74	53
Total of HCFC-s			319	600	809,1	935
-22		n. a.	102	282	414	401
-123			n. a.	n. a.	19,0	17,0
-124				n. a.	0	3
-141b		n. a.	0	27	39	85
-142b		n. a.	217	291	337	429

n. a. = not available

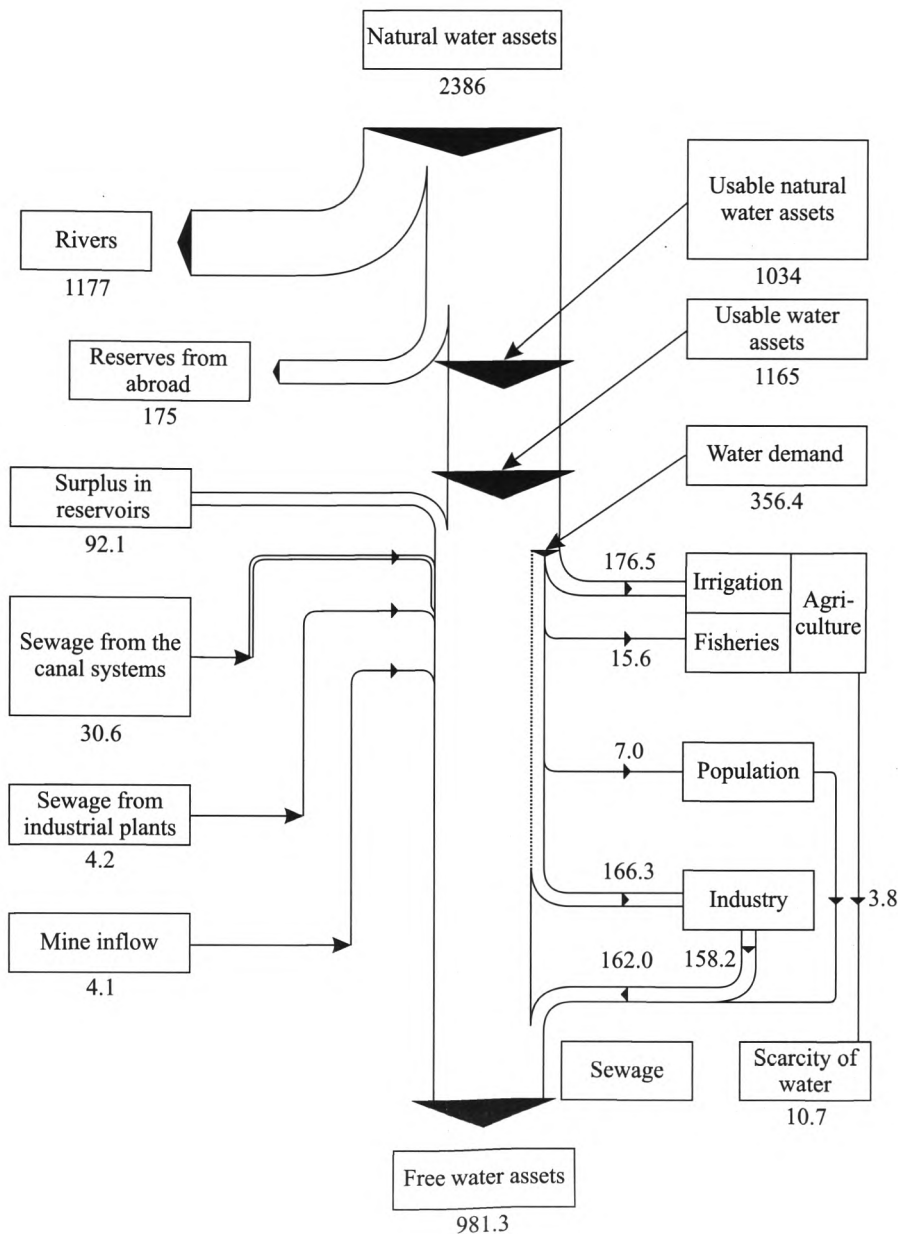
Source: Kereszty, A. (ed.) 1998: Tények Könyve. p. 162-163.

that of the demand for water do not coincide. The western and northern parts of Hungary have more precipitation, their network of surface waters is more abundant, and underground water-resources are also significant. The eastern parts of the country, on the other hand, are drier, their resources of surface and underground waters more scarce. As a result, distribution problems may emerge, especially in the eastern half of the country; thus a well-planned water-management policy is urgently needed for the macro-region.

In parallel with the deterioration in the global environment, the quality of Hungary's surface waters has been generally declining since the 1950s, although not uniformly. *Two factors* are accountable. *One is the fact that 95%* (114 billion m³)

Figure 6

The standard water balance of Hungary (m³/s), 1994



Source: The standard water balance of Hungary, 1994, Hungarian Water Management Directorate, 1996.

of our total renewable water resources come from drainage areas outside the country's borders: they are often polluted. The other factor is that the previous centralised economy was very wasteful with water-resources, and the extensive industrialisation, from the late 1950s onwards, resulted in the accelerated pollution of surface-waters. This situation became critical as early as the 1960s, especially in the case of the smaller rivers (the Sajó, Bodrog, Pécs Stream, the Séd-Nádor canal system, the Száraz-ér, the drainage area of the Zagyva and Tarna rivers), such that the usefulness of the water to both communities and industries was threatened. In 1961, a government decree introduced systematic regulation to protect water-quality. Despite this regulation, rapid technical developments in industry and agriculture introduced new forms of pollution. Hazardous pollutants, detrimental even in small quantities, affected surface waters (phenol, oil, fertiliser, washing detergents, by-products of chemical plants); their presence was not indicated by the indices of oxygen balance. Thus occurred the first great "environmental shock" in Hungary, the great decline in fish-species in Lake Balaton in 1965; this also happened in the Hortobágy–Berettyó river and the Villogó Canal, whose waters, based on the classical oxygen balance, had been considered as "clean". By this time, the so-called 'first water producing layer' (shallow subsoil water) had become polluted across most of the country (with nitrates, arsenic etc.). This was a principal reason for introducing new water quality norms in 1967, harmonising with international standards. In 1983, once again we had to modernise the examination, assessment and qualifying systems of water quality. With the enactment of the Hungarian Standard No. 127 49: 1993, a new quality-system was introduced in Hungary, which conforms to European Union levels.

Forty-five per cent of all drinking water in Hungary is provided by filtered wells located on river banks. When water-levels are low, water is drawn from those subsoil layers where the nitrate content of the water considerably exceeds the permitted limit of 40 mg/l. Any dilution-effect is less frequent lately, so the nitrate concentration of some domestic supplies has exceeded this limit. The pollution of small rivers by nitrates is even more serious in many places, e.g. in some of the streams flowing into the northern part of the Lake Balaton, the nitrate concentration reaches or exceeds 80 mg/l.

The highest concentrations of nitrate were registered in Baranya county: at 1 Jakabhegyi street, Pécs (1,500 mg/l); at 1 Kis Geresd street, Geresdlak (1,130 mg/l); in the Primary School of Egerág (1,600 mg/l) and at 24. Fő street, Helesfa (970 mg/l). (Data from 1988, by the KÖJÁL¹ of Baranya county.)

The nitrate problem affected approximately half a million people, including some 9,000 infants under one year old. In the villages where the nitrate content was high, there was no central water supply: water was mostly drawn from (mainly sunk) wells providing subsoil water.

¹ KÖJÁL = Public Health and Diseases Service.

The data indicate the health risk posed by the high nitrate-content of drinking water in Hungary. The most sensitive age group, infants under 1 year of age, were especially endangered.

As a result of this situation, the construction of water pipelines was accelerated in Hungary, financed by central governmental funding; by 1990, especially in the urban settlements, water quality had improved to meet European standards (*Table 8*).

Table 8

The development of water- supply by pipeline in Hungary, 1991–1996

Specification	1991	1992	1993	1994	1995	1996
Proportion of settlements attached to the supply of drinking water, in per cent	84.4	87.4	89.4	92.3	97.5	98.7
Proportion of the population served by centralised drinking water supply, in per cent	84.5	86.0	87.0	88.0	89.7	90.5
Consumption of drinking water per inhabitant, m ³ /year	51.2	49.6	46.1	43.4	51.3	38.4
within that: in towns	63.1	60.7	55.9	53.3	50.3	49.5
in villages	30.4	31.5	30.0	26.7	26.2	32.0

Source: Kereszty, A. (ed.) 1998: *Tények Könyve*. p. 144.

A deeper analysis of the problem, however, reveals that healthy drinking water is still not available in all of the villages: the proportion of village apartments attached to the water pipe lines hardly exceeded 60% in 1996 (*Table 9*).

Table 9

Changes in the number of flats attached to the drinking-water pipelines in Hungary, 1991–1996

Specification	1991	1992	1993	1994	1995	1996
Flats attached, in thousands	3,386	3,446	3,484	3,524	3,591	3,628
within that: inside the flat	2,914	2,867	3,028	3,147	..	..
outside the flat	471	479	456	439	444	..
Proportion of attached flats at national level, in per cent	74.4	75.3	76.6	77.7	78.9	79.3
within that: in towns	81.8	87.4	87.5	87.4	87.7	88.2
in villages	53.1	54.9	57.7	60.6	63.4	63.7
New attachments, in thousands	64	67	213	74	71	

Source: Kereszty, A. (ed.) 1998: *Tények Könyve*. p. 145.

The situation of the small villages is of particular concern: some of them are not attached to the drinking water pipe line at all. In many places the quality of the tap-water is suspect, usually resulting from bacterial contamination.

In the field of water-quality protection, the slow development of sewage-treatment facilities is a serious problem.

The National Environmental Programme of Hungary, approved in 1996, points out the dangerous situation that while 96-97% of the Hungarian population live in regions supplied with tap-water, the proportion of those in settlements with channelled waste-water facilities is only 57%. This so-called 'utility gap' is 40% and is a considerable source of water-pollution (*Figure 7*).

According to the data of the Ministry of Environment and Regional Development, only 33% of the sewage that needs treatment is purified completely; 67% is released into the waterways only partially purified or without any purification at all (*Table 10*). Small villages are in an even worse situation in this respect, as only 8-10% of them have disposal-channels; other methods of sewage-collection (e.g. by special container vans) are usually neither hygienic nor efficient.

Table 10

Sewage purification in Hungary (million m³)

Sewage	1980	1990	1994	1995	1996
Sewage needing purification	951	970	776	828	874
well purified	143	206	179	225	287
partially purified	626	666	478	439	417
not purified	183	98	119	165	170
Used water that does not need purification ('grey water')	1,259	3,889	4,511	1,354	1,308

Source: Ministry of Environment and Regional Development.

When examining the environmental aspects of Hungary's water resources, we cannot neglect the potential threats to the country's subsurface supplies.

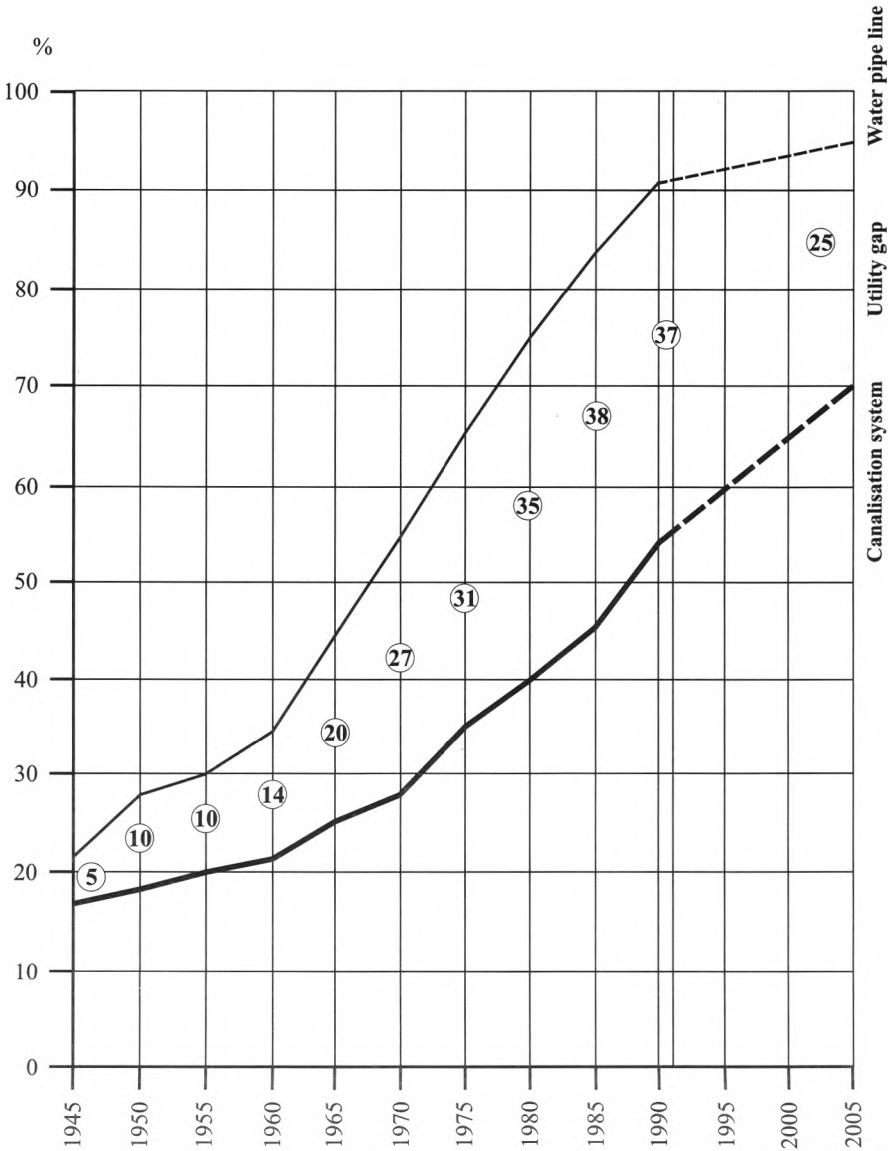
These underground waters are not only endangered by pollution, but by extraction for other purposes, e.g. the mining industry, which can seriously deplete water levels. *Figure 8* illustrates such correlations. The extraction of water from bauxite-mines and brown-coal mines in the Transdanubian Mountains resulted in a visible drop in the level of the karst-waters. This jeopardised the supply of thermal waters to Hévíz Lake as well as to the hot springs of Buda – not to mention that valuable resources of karst-water were wasted across large areas.

The construction of new reservoirs is essential to ensure proper management of Hungary's water resources.

As a result of large-scale developments in water-resource management in recent years, almost 200 small and medium-sized reservoirs and 7 large reservoirs, with a

Figure 7

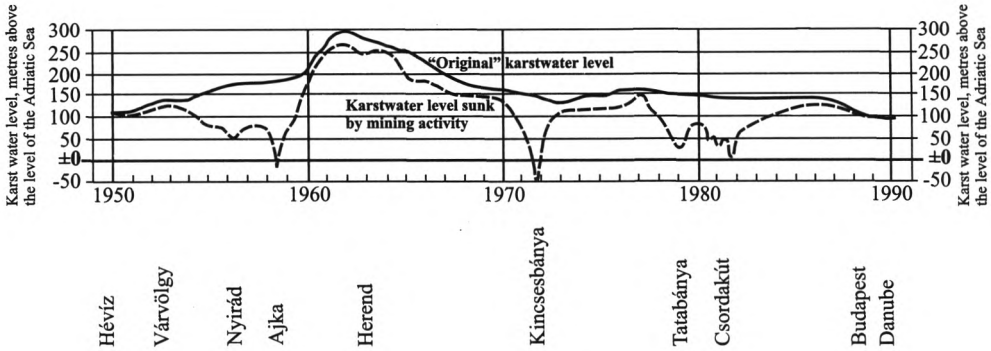
Proportion of the population served by water pipe lines and living in canalised areas (1945–2005)



Source: Water Management Framework.

Figure 8

*Change of the karst water level in the Transdanubian Mountains
(by Szilágyi, G.)*



Source: Assessment of the water reserves of Hungary, VITUKI (Research Institute of Water Management) 1996.

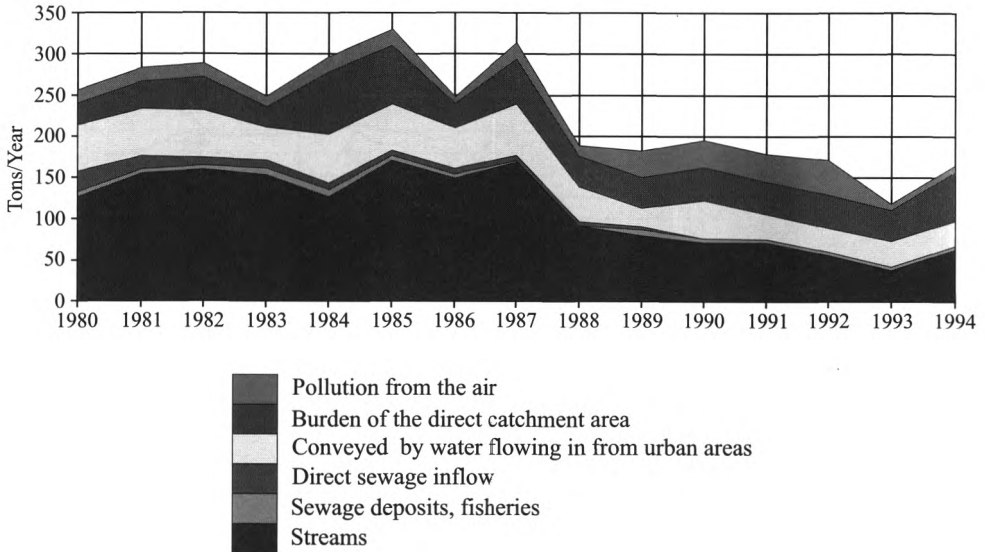
total capacity of 500 million m^3 have been created by damming river-beds. Unfortunately this is not enough to satisfy water-demands. Also extensive methods of enlarging the nation's water-reserves are becoming exhausted; and such developments are environmentally unadvisable. The future of intensive resource-development is the recycling, re-use and repeated use of water. The expansion of water-resources has to be solved in a joint planning and control system, through a regional approach to resource-management. If necessary, the regions should support one another (e.g. Transdanubia should supplement the regional water system of the Great Hungarian Plain); also, the gap between the water pipeline supply and disposal-channels for waste-water should be decreased, and the challenges of flood-protection and the security of navigation should be met.

The other threats to the environment are complex in character and will be discussed in the analysis of waste management.

The efforts of central government and the strict regulation of environmental policy has resulted in improved water-quality over the past 10 years. The best example is the rehabilitation of Lake Balaton. The total phosphorus burden of Lake Balaton has been decreasing since 1988, and so has the nitrogen loading (*Figure 9*). However it must be noted that the water-quality of our major lakes and reservoirs, because of their shallowness, is largely determined by hydro-meteorological conditions and not only nutrient-pollution.

In our largest rivers (Danube, Dráva and Tisza) with their relatively large dilution capacity, the quality of water is determined not primarily by physical and chemical contaminants, but by the level of unfavourable micro-biological characteristics. Conversely, in smaller streams, with a consequently low dilution-effect,

Figure 9

Total of the phosphor polluting the Lake Balaton

Source: The Environmental Programme of Hungary, 1996.

relatively low pollution-quantities can seriously affect the quality of the water downstream from the pollution source (e.g. Ikva, Kenyérmezei Stream, Pécs Stream, Eger Stream etc.).

Finally, we have to mention that the protection of our waters is important not only for economic reasons but also because some of them are still among the most diverse and richest water habitats in the whole of Europe.

6 Soil

The most important natural resource of Hungary is the soil, both as a productive element and the fundamental medium of agriculture and forestry. The share of arable lands is outstandingly high by European comparison (86.1%), 66.2% of which is agricultural land and the remaining 18.9% is forest. Settlements, industrial and military areas, infrastructure and mining together use some 10-12% of the lands.

The condition of the soils is determined by the natural biological, chemical, physical and hydrological processes and the artificial, human, effects. Also, the soil-condition is determined by natural soil-functions and use-potential, by land use and the use of water resources.

In terms of the several threats to the soil, the changes in cultivation-patterns in response to current social needs is worth mentioning (*Table 11*).

Table 11

Changes in cultivation-patterns in Hungary, 1935–1992
(in per cent of the territory of the country)

Year	Ploughed land	Garden	Orchard	Vineyard	Pasture	Forest	Reed	Fisheries	Non-cultivated areas
1935	60.3	1.2	*	2.2	17.7	11.8	0.3	0	6.5
1950	59.1	1	0.6	2.3	15.9	12.5	0.8	0	7.8
1960	57.1	1.1	0.9	2.2	15.4	14.1	0.3	0.2	8.7
1970	54.2	1.6	1.8	2.5	13.8	15.8	0.4	0.2	9.7
1980	50.9	3.1	1.5	1.8	13.9	17.3	0.4	0.3	10.8
1988	50.6	3.6	1.0	1.5	13.0	18.0	0.4	0.4	11.4
1992	50.6	3.6	1.0	1.4	12.5	18.4	0.4	0.3	11.8

Source: Nemzeti Környezetvédelmi Program. 1996.

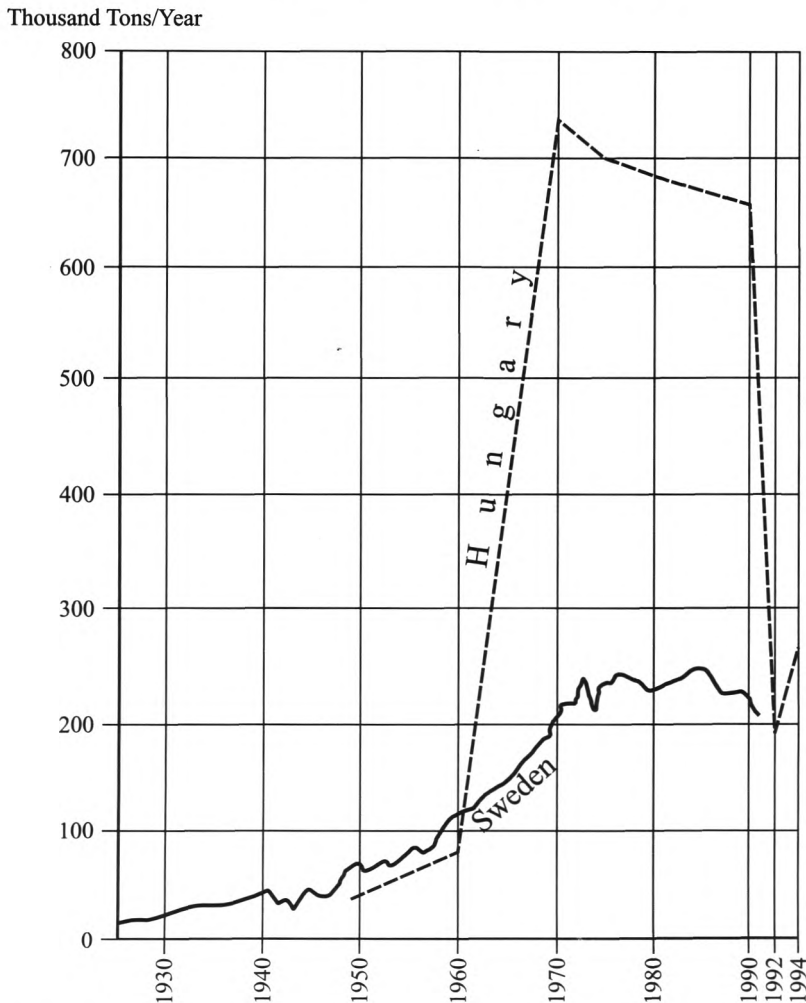
The extent of arable land in Hungary has decreased continuously throughout the 20th century. It was approximately 400,000 hectares (some 5%) less in 1990 than in 1945, mainly because of an increase in urbanisation, water management establishments and the demand of industry and mining for land. A further decrease of about half a million hectares of ploughed lands took place, but a significant part of this decrease was transferred to an increase in forests, gardens, orchards, vineyards and grassland areas. Besides the land taken out of cultivation, a great problem is that more than half of the current arable land is affected by some unfavourable natural effect: soil degradation: acidification, erosion, deflation, alkalisation, compaction, structural deterioration, flooding, etc.

Soil acidification has accelerated since the late 1970s, and it has become one of the most pernicious degradation processes. In the early 1980s, approximately half of the 5 million hectare territory was acidic, within which 1.2 million hectares, i.e. 15% of the arable land, highly acidic. The increase in acidification is mostly due to the unprofessional use of fertilisers, the excessive use of nitrogen-based fertilisers and the use of superphosphate, which often contains large amounts of acidic residues. There is also the effect of role of acidic deposition from the air, and the use of different acidic industrial by-products and wastes is also important. The use of these materials was meant to multiply agricultural yields in the 1960s and 1970s. It is edifying to compare the total amount of fertilisers used in Sweden and Hungary in this period. The comparison can be sound, as the areas under agricultural cultivation are about the same in size in both countries (*Figure 10*). The use of fertiliser between 1940 and 1960, and after 1994 was about equal in the two countries. From 1960 to 1994, however, Hungary used about three times as much fertiliser as Sweden. This intensive use of fertilisers, which is unreasonable given the climatic conditions of Hungary, is largely responsible for the already-mentioned soil-acidification. It is questionable whether it is an economical practice, and it also

carries the threat that the acidic chemical reaction of the soil might decrease yields considerably. In the final analysis the efficiency of fertilising declines with extended use. As proof, the use of fertilisers and pesticides in Hungary in the first half of the 1990s is shown (*Figure 11*). The trend indicates that market conditions rapidly moderate the use of fertilisers, which amounts to an environmentally more friendly land management system.

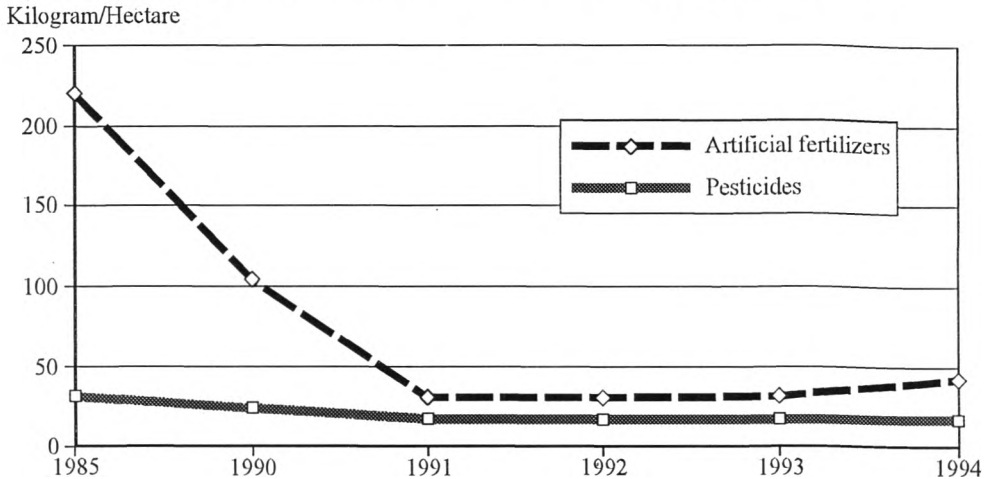
Figure 10

Total use of fertilisers in Hungary and Sweden



Source: National Atlas of Sweden, 1992; Central Statistical Office, Budapest.

Figure 11

Use of artificial fertilizers and pesticides in Hungary in 1985–1994

Source: The Environmental Programme of Hungary Direct sewage inflow.

Soil as a natural resource is also seriously endangered by erosion. Water-erosion negatively affects 2.3 million hectares of mountainous and hilly areas in Hungary. It is estimated that an annual average of 80–100 million m³ of soil, and thus some 1.5 million tons of organic matter, is eroded from the 1.5 million hectares of arable land subject to erosion. In addition, an area of 1.4 million hectares is damaged by wind erosion. A variety of alkaline soils cover 9% of Hungary's arable land, and secondary alkalinisation endangers another 3%. The water balance of the soils is unfavourable in 43%, medium in 26% and good in 31% of the national territory. The unfavourable water balance usually has natural causes, but in some areas they are the consequence of careless and unprofessional soil amelioration (*drainage through a network of pipes*). Hungary has made considerable efforts in soil amelioration since the first half of the 20th century (*Table 12*).

7 Waste is always a potential threat to the soil

Soil-pollution is less well-known than the environmental threats to the air or the waters. Unfortunately this does not mean that soils are less endangered than these other elements. The processes that pollute the soil are less obvious and much slower: the pollution cycle is much longer. This latter is a serious danger in itself: it is like a slow poison, which, if not discovered in good time, can have fatal

Table 12

Quantitative features of soil amelioration (in hectares)

Year	Acidic	Alkali soil	Sand	Total	From this, liming
1928–1937* total	–	4,028	–	13,107	
1950	2,970	1,046	–		192
1960	40,684	15,126	4,803	60,613	6,635
1965	76,034	15,639	7,989	99,662	8,289
1970	34,530	4,747	2,636	41,913	1,501
1975	35,395	3,863	1,260	40,518	1,587
1980	34,331	2,731	2,205	39,267	575
1985	30,709	3,068	2,718	36,495	?
1990	73,013	2,073	35,149	78,111	?
1992	25,342	569	49	25,960	?
1994	13,580	1,754	–	15,334	?

* Soil amelioration in the ten-year period altogether

Source: Ministry of Environment and Regional Development. National Environmental Programme of Hungary.

results. We are aware of the fact that the soil has already been damaged in many places, for example by the increasing deposition of toxic wastes. Their effect is worsened by pollutants borne by water and settling from the air (the consequence of which can be a catastrophic acidification of the soil). Overall the negative effects of soil-pollution are much more difficult to isolate and remedy than in the case of air or water pollution.

From a host of threats, *Table 13* only names a few of those which are particularly relevant in Hungary. The background to the figures is even more worrying, because, for example, only 30% of the 2,700 communal waste-sites comply, more or less, with the environmental and hygienic requirements (National Environmental Programme of Hungary, 1996). This means that even the legal waste deposits can be a potential source of pollution, not to mention the illegal waste deposits, the number of which is estimated to be two or three times higher. The amount of fluid communal waste collected is inaccurately-known, and its disposal can hardly be traced. The annual quantities of wastes are shown in *Table 14*. It is a promising indicator that both the volume of hazardous and non-hazardous production wastes has been decreasing since the mid-1980s. *Table 15* shows in detail the constituents of hazardous wastes produced in Hungary. It does not, however, mention the almost 1 million tons of hazardous 'red sludge' (a toxic waste-product of aluminium manufacturing, with a high content of heavy metals), which is categorised as hazard category II. This explains the statistical difference between the data in *Table 14* and *Table 15*.

Table 13

The estimated number and volume of potential and actual pollution-sources, plus other damaging effects in Hungary

Source	number	volume
settlements	3,100	–
desiccated sewage	–	90 million m ³ /year
communal waste deposition	2,700	120–130 million tons*
industrial establishments	1,200–1,500	–
industrial waste deposition and producing establishments	800–900	106 million tons *
fluid manure	200–300	40 million tons/year
mining objects	6,000	–
spoil-banks	3,500	1 billion tons*
surface movements	1,000	–
undermined and undercellared areas		

* heaped at the location of the deposition

Source: Regional Development Concept of Hungary.

Table 14

Annual breakdown of waste produced in Hungary (million tons)

Type of waste	Volume produced				
	1985	1990	1992	1993	1994
Solid communal	4.5	4.9	4.0	4.2	4.3
Fluid communal*	20	20	20.0	20	20
Production, hazardous	4.8	4.7	4.2	3.9	3.5
Production, non-hazardous	96.0	90.0	75.8	80.0	81.0
Total	125.3	119.6	104.0	108.1	108.8

*estimated data. Source: CSO

Table 15

Breakdown of hazardous waste produced in Hungary, by substance (in % of total of waste, without red sludge)

Year	Solid		Ooze-like		Fluid	
	tons/year	%	tons/year	%	tons/year	%
1989	531,168	18.55	653,769	22.83	1,677,882	58.60
1990	507,989	18.80	669,454	24.78	1,523,531	56.40
1991	514,219	20.43	680,272	27.03	1,321,404	52.52
1992	617,936	23.18	751,706	28.19	1,296,206	48.62
1993	661,724	25.49	773,009	29.78	1,160,623	44.71
1994	676,723	26.61	645,436	25.38	1,220,620	48.00

Source: Ministry of Environment and Regional Development. National Environmental Programme of Hungary.

8 The environmental strategy of Hungary and the European Union

The reasons behind environmental conflicts in Hungary are typical of East Central Europe. The opportunity to escape the serious socio-economic and environmental crises of the region can only be realised in a new policy of economic development, which is ecologically and environmentally conscious. Environmental analysis highlights the fact that the environment of the region, already seriously degraded by polluting materials, can hardly bear any further burdens. This is the case even with the lighter pollution-loads now current and without any major ecological or environmental disasters. The conditions of the environment in some regions, especially in the medium- or slightly-polluted rural areas, compare well in an international context. There are still relatively large areas with good environmental conditions (e.g. the 10 National Parks), where species-abundance is high, as is the number of natural habitats and species-associations. A great dilemma to face Hungarian society in the near future is the difficulty of reconciling the requirements of sustainable development with survival strategies needed to cope with economic stresses.

It is true that the structural transformation and the decrease in personal consumption and energy consumption which have taken place since the systemic change, have had a favourable impact on the environment. The reductions in steel and aluminium production and in the heavy chemical industry particularly, have had a positive effect on air-quality, thus encouraging the completion of certain international environmental agreements (especially the first sulphur-dioxide agreement). In the transport sector, there has been a net opposite effect: the decrease in transportation and the improvement in fuel-quality have been positive, while the increasing volume of vehicle traffic (and the decline of rail and public transportation) has increased the overall environmental damage. In agriculture, the decline in the volume of production and the insolvency of the large agricultural farms has resulted in a decrease in the production and use of fertilisers and pesticides. On the other hand, the use of chemicals by small-scale producers is unregulated.

The Hungarian economy – given its still outdated structure and technical level – pollutes the environment more than the economies of the advanced industrial countries. However, the volume of economic activity, the consumption per capita and the level of car-ownership are still much lower in Hungary, thus the emission of pollutants per capita is lower.

The biggest environmental problems in Hungary, today and probably in the forthcoming decades, are due to the responsibility of local governments to effect changes, with insufficient central government support. Even more complex are those issues of environmental conflict which can only be solved at county level or through regional co-ordination, such as waste management, the collection, trans-

portation and treatment of sewage, air-pollution by traffic (especially roads running through settlements etc.), the collection, disposal and neutralisation of waste. Any delay in dealing with such conflicts will cause costs to escalate. The solution of such problems, apart from occasional access to central resources, is the exclusive responsibility of the local governments.

The environmental strategy of Hungary at the turn of the millennium and in the decades thereafter will be determined by our approach to EU accession. A basic precondition is a much more consistent harmonisation between economic development and environmental interests. Also, accession rulings define the basic requirements of sustainable economic development. In practice this means that further deterioration of the environment must be stopped or prevented.

In order to achieve these goals, several environmental strategies can be defined for Hungary. The economical, cost-minimising option is the most likely to be adopted, although this is a less attractive economic strategy than environmentally-friendly modernisation. The latter course, however, is unlikely to be applied, because of the country's weak economic capacity. Whichever strategy becomes dominant, it is encouraging that by the turn of the millennium Hungary will have a National Environmental Programme and a National Environment–Health Care Action Programme (1996), which will provide targets for emission trends to continue to decline through the first decades of the 21st century.

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