

REGIONAL POLICY and LOCAL GOVERNMENTS

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Edited by
GYULA HORVÁTH



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PREFACE

In September 1990 Hungarian and Estonian researchers came together to a round-table talk in Pécs, the regional centre of Southern Hungary. Economists, jurists, political scientists and geographers of the Centre for Regional Studies of the Hungarian Academy of Sciences and of the Institute of Economics of the Estonian Academy of Sciences expounded their research results and exchanged ideas on the subject of regional policy and the development and work of local self-government communities. Papers held at this meeting are published in this volume.

The two relatively distant lying European countries have much in common as far as their historical development, their fate and the economic attempts of the recent past are concerned. During the centuries these two related Finno-Ugric peoples have tried to create their own national identity and build up the establishments of their independent statehood in the „buffer zone” of Eastern and Western Europe, in „Inter-Europe”, respectively. Although this transitional zone lies in the eastern part of Europe, it was the western type Christian civilisation and feudal system that gained footing in the eastern part of Central Europe, thus making the western border of the East become the eastern border of the West. This semi-peripheral situation in relation to Western Europe has been going on for centuries, now approaching the West, now the East, with its development periods repeating themselves sometimes in the attraction of the West, sometimes in the thrust of it.

It is also the analysis of the course of the historical development of the East-Central European region that gives an explanation to the formation of the settlement network and the specific features of town administration in both countries. In the 13th and 14th centuries certain Hungarian towns (e.g. Kassa, Lőcse, Pozsony, Sopron and Nagyszeben) were just as independent as their West European equivalents. Their economic relations were spread over Western Europe. There were also strong ties between the four Estonian Hansa-towns and the centres of European development. The modern town self-government of Tallinn, Tartu, Viljandi, and Pärnu contributed to the economic prosperity of Estonia to a large extent.

The East European feudalism, however, forced the urban communities of the developing citizenship on another way. The Turkish occupation in the 16th and 17th centuries, lasting one hundred and fifty years, and Estonia's getting under Russian dominion at the beginning of the 18th century opened the way to the second wave of feudalism, the second serfdom and further centralization, of urban administration which meant the Prussian kind of agriculture and centrally controlled urban and regional administration. In this administration system local and regional interests – either that of the nobility or the citizens – were subordinated to central interests determined by state bureaucracy.

Agricultural large estate on territories to the east of the Elbe was based on the labour service of serfs and not on wage labour. In the 19th century the comparatively large number of agricultural population and the underemployment had left their marks

on the development of the settlement network of Hungary. Towns did not achieve bourgeois status and industry came from outside into, in the beginning through the mediation of foreign capital and what is more, with the presence of foreign capitalists and bankers. Industry developed not out of towns – as it was the case in Western Europe – but it was the industrial development that started capitalist town development. The growth of population in towns kept more or less pace with the increase of labour opportunities in towns mainly because one part of the semi-proletariat of the countryside has rather chosen emigration to America than staying unemployed in the home-country.

Both Hungary and Estonia entered the era of industrial prosperity as part of a European empire. Hungary fell under the less developed regions in the Austro-Hungarian Monarchy being in a process of modernization (the gross national product per capita was three-quarters of the average of in the Monarchy). Baltic states – joined international trade at an early stage and, consequently, having better developed commodity-money relations and also mercantile and entrepreneurial traditions – became the most developed and industrialized regions of the Russian Empire. Their internal social-economic conditions made possible for them to utilize the underdeveloped and practically unlimited Russian market opportunities.

After World War I both countries broke away from their previous economic unities. Besides, Hungary suffered a considerable loss of territory and population. In the course of the territorial changes several branches of industry had lost their basis of raw material, only 31% of the metallurgical bases and 11% of the iron ore exploitation were left in the country. The wood industry faced a similar situation as well: forest territories making out the biggest part of the raw material basis fell under the disannexed territories, only 16% of them were at disposal. The raw material basis of the strongest industrial branch, the milling industry had narrowed down, too, compared with the enormous export capacity. Although there was a remained milling capacity of 65 thousand tons, the tillage land of the country guaranteed only a corn amount of 20–28 thousand tons. 38% of the old railway system and four fifths of the production capacity remained on the new territories. Estonia found itself in a similar economic situation. After the proclamation of the Estonian Republic in 1918 economic relations with Russia were practically broken off. Estonian shipbuilding, textile and food large-scale industry had lost their previous safe markets.

The enormous shipyard of Tallinn produced heavy-duty war vessels for the Russian Baltic Fleet, the Russian railways were the most important market its the railway-waggon factory, while the Kreenholm Cotton Mill of Narva – the biggest of its kind in Europe – supplied the spinning mills in Central Russia with raw material. In 1914 the shipyard and the machine industry had 14 thousand and the textile industry 19 thousand workers, while in 1936 their number was 6 thousand and 12 thousand, respectively. Before World War I 43 million liters neat alcohol was produced in 300 factories of the Estonian distilling industry for the enormous Russian market, and in the years to follow production went back to its tenth.

Both national economies got into close contact with the world market both in the field of export and import. The change manifested itself not only in the fact that their

economies became foreign trade oriented but in that as well that their realization and price conditions on the world market rose immediately to crucial importance.

Despite all the attempts at modernization during the period between the two World Wars, both countries remained basically of agricultural nature. In 1941 49% of the Hungarian population worked in the agricultural sphere and 25% in the industry and in Estonia 60% of the population was engaged in agriculture and only 18% in the industry in 1934.

A series of inequalities and tensions concerning settlement was brought to surface both in Hungary and Estonia by the waves of big industrialization after the World War – which was a typically East European attempt at economic modernization – and the planned socialist economy. Masses of immigrants rushed to industrialized districts and bigger towns causing housing shortage and problems of service. At the same time rural areas turned into decline. The majority of the population of rural areas excluded from the advantages of urbanization and the population of industrial zones, owing to the overpopulation and the neglect of infrastructure, could not really enjoy the benefits given by towns. The settlement policies of both countries – which were similar in all former socialist countries – bore all the consequences of a policy whose aim was to catch up with the developed capitalist countries within the shortest time and at the same time to realize a classless society. One of the results was the development of a modern town system (in both countries more than two thirds of the population lives in towns). The classical town-functions, however, are not functioning well, in these societies conditions of the infrastructure of production were more important than the circumstances of human life. The social costs of the unquestionable technical progress were rather high and the „socialist” urbanization was followed by disintegrated communities, immigrants not being able to take roots in the cities and permanent and violent interferences of the power in individual fates.

The settlement policy of the planned socialist economy and the local administration structure based on it were formed by requirements of economic development and social change as well as ideological considerations. The most common features of settlement policies were as follows: their aim was of equalizing nature, they stood under central control, and they were basically in favour of towns and opposed to villages. Local councils became organic parts of the planned economy in which distribution of the capital and the labour force was regulated not by the market but, according to the norms of scientific planning, by the state. Although their functions were gradually changed and they underwent a series of reform, they were not the organs of local politics but the local organs of politics until recent times. The appearance of the civil society, the decline of the omnipotent paternalist state, the disappearance of the belief in the direct relation between economic efficiency and volume of production or largeness of organization they all query the fact whether the aims of settlement development are to be formulated from one single centre on the basis of abstract statistical data and the strategies of social policy derivated from ideologies.

In both countries there have been requirements of there fundamental changes accumulated in past decades: change to a post-industrial society, structural and technological change in economy and change of social paradigm. The democratic

transformation has opened merely the doors to the socio-economic modernization in both countries. The way there, however, is today for the most part unknown and there are several unknown political factors influencing the tendency of development. Regional and settlement development has come to crucial cross-roads both in Hungary and Estonia. The period of fast town-growth and settlement concentration has come to an end as well. It is the turning-point of the new settlement-forming process as well that gives ground to the beginning of a new era of regional policy. What should the regional policy of the new economic system be like, in what way should it help the restoration of Hungarian and Estonian national markets, how can it serve best the macro- and microeconomic reintegration into the growth centres of Europe, in what way should the settlement function under market terms (conditions), what should the relationship between the local authority and the central state be like and what direction should the regional development policy take? The participants of this round-table conference tried to give answers to all these questions and the answers given to the various issues are published in this volume.

Pécs – Tallinn, Summer 1991

Gyula Horváth, Sulev Mäeltsemees

REGIONS IN COMPETITION: INTERNATIONAL DIVISION OF LABOUR AND REGIONAL POLICY

GYULA HORVÁTH

Challenges facing the Hungarian development strategy and alternative solutions of the regional policy

The Hungarian development strategy is in a difficult situation. The gap separating Hungary and the highly developed western countries is becoming wider and wider, at the same time Hungary is left behind by countries which used to be regarded traditionally as underdeveloped. It has become a realistic danger that the country will be drifted to the periphery of the world economy and sink among the economically underdeveloped countries. Hungary is burdened with grave indebtedness and interests to be paid back. Its share in the world trade is gradually decreasing. While in 1938 the share of Hungary amounted to 0.65%, in 1987 it was only 0.30%. In the individual development stages the share of the products in the Hungarian exports considered to represent high technology reached 60% of the share produced by the then most developed countries in the period preceding World War II, while in the present Hungarian dollar exports it hardly reaches 20%.

The Hungarian economy is isolated. Although in the statistical sense of the word Hungary is an open country, its isolation in scientific-technological, economic and market terms is perhaps greater than it was at the turn of the century. Between 1867 and 1914 40% of the Hungarian economic investments were covered from foreign capital. The inflowing capital dynamized internal capital formation, thus it could become stronger in the autonomic development of the Hungarian economy.

In our days Hungary, with one of the smallest size in Europe and a market inducing less and less pressure on supply, has poor chances of being able to follow the main tendencies of the technological progress.

The economic crisis has extended over each point of the country. At the same time it has affected the territorial structures diversely. In the spaces with a weak structure and in the one-crop settlements the economic decline has brought about unemployment. On account of the enterprise management problems and sectoral development difficulties the depression features strengthened in the industrialized regions and the deteriorating economic conditions of the agrarian sphere led to the

appearance of stagnating agrarian spaces. The primary and secondary sectors – on account of the decrease of their income-producing capacity – lost their formerly dominant region-developing power. The tertiary sectors, on the other hand – on account of their underdeveloped state – are not able to replace the branches that have lost their positions as settlement-forming factors. The causes of this are to be sought for in the consequences of forced industrialization, in economic policy and the formerly dominant ideological world concept. The relative underdevelopment of the Hungarian service sector is indicated by the fact that the rate of services hardly reaches half of the 60% GDP ratio characterizing the averagely developed countries. In Hungary and the other East European countries the lasting disesteem of the service activities by the ideology and the economic policy as well as their being labelled as unproductive have also contributed to the distortion of the growth path, to the increase of lagging behind the international tendencies and to the forming of the peripherization processes.

In the years to follow the pace, structure and modernization of the Hungarian economic development will depend mainly on the cooperation maintained with the developed and dynamically developing countries. In addition to the restructuring of the national market (the reform of state ownership, the encouragement of entrepreneurship, the establishment of ventures on a massive scale, the liquidation of monopolies) one of the key issues of the Hungarian development strategy is the *macro- and microeconomic reintegration into the system of the international division of labour*, that is a comprehensive socio-economic adjustment. This is so because the chances of economic growth are mostly linked to the strengthening of exportability and the exploitation of the benefits of the international division of labour. The content of the new market conception should be coupled not just with changing the CMEA-orientatedness and the strengthening of the cooperation with the dynamically developing countries but also with the possibility of the reform of the Hungarian foreign trade to be based also on decentralized forms of participation in the international regional integration and an adequate organizational-institutional system should be established as well.

Besides the economic and socio-political factors the evolution of the international tendencies should be taken into account *in the regional policy as well*. It follows from the political declaration of getting integrated into advanced Europe that the system of the objectives and tools of the Hungarian regional policy also must be adjusted to the European norms. As to the objectives, the Hungarian regional development policy has been formulated in documents that can be said to be up-to-date even by international standards. The UN-proposals for regional development are reflected in them, namely, the regulation of the settlement-forming processes, the exploration of the natural resources and their extensive exploitation, the support of the local initiatives and the tempering of differences in the development levels of the regions. As to the system of tools and particularly that of regional development institutions, however, the traditional methods of the centralized command economy are still dominant. From the aspect of our theme: all the elements that

link regional and settlement development to international competitiveness are missing.

The new Hungarian regional development strategy also has to take into account the competition of the European regions. A national programme is required which is in accordance with the regional conceptions of advanced Europe is needed which is able to link the Hungarian landscapes to the international integration by supporting the local initiatives, strengthening the regional consciousness, in order to make the inhabitants of the different parts of the country believe in the possibility of the dynamization of their respective region, and finally, gives free scope for the counties and towns – independently or in alliance – to meet the challenges of the European competition themselves.

Regional challenges of the European integration

In united Europe, which is bound to come into existence in 1992, citizens will be free to choose their places of work and residence, tourists will be able to use their credit cards all over the European Community, companies may overcome new markets, and the free flow of people, capital and goods will be possible. It will be also possible to utilize the economic and political advantages of the spiritualization of the borders only by means of the decentralized exercising of power. In the EEC member-states the regional governments have been making systematic preparations for several years now to be able to meet the big challenge of the turn of the millenary: to participate in the cooperation and competition of large landscapes beyond the frontiers.

In the developed industrial states the growth phase of monopolistic accumulation based on mass production was replaced by a period of decentralized economic development built upon the strong role of a differentiated market by the 70s. The role of the raw material-intensive industry, its former pulling power of development, decreased, the employees in the service industry, which gives rise to a new kind of spatially mobile location requirement, outnumber by far the people employed in the traditional production processes. Similarly, there was a decrease in the rate of the people employed in agriculture as well as in the share of agriculture in the economies of the individual regions. It is noteworthy that in the traditional South Italian agrarian regions the percentage of the agricultural employees dropped from 34% to 20% in 1970–1980, and in the less industrialized regions of the other countries it does not exceed 10–15% either.

The developing economic structure did not raise the regions that used to be leading provinces in the earlier industrialization stage to the front-rank. The secular citadels of the capitalist industry started to decline and nearly unknown regions started to rise higher and higher on the social ladder of development in the European regions. In 1950, for instance, on the basis of the per capita GDP, the South-East region in England started to rank 4th, Wallonia in Belgium 6th, Lotharingia in France 9th. In 1980 the „rust belts” got only 35th, 40th and 24th place. Other

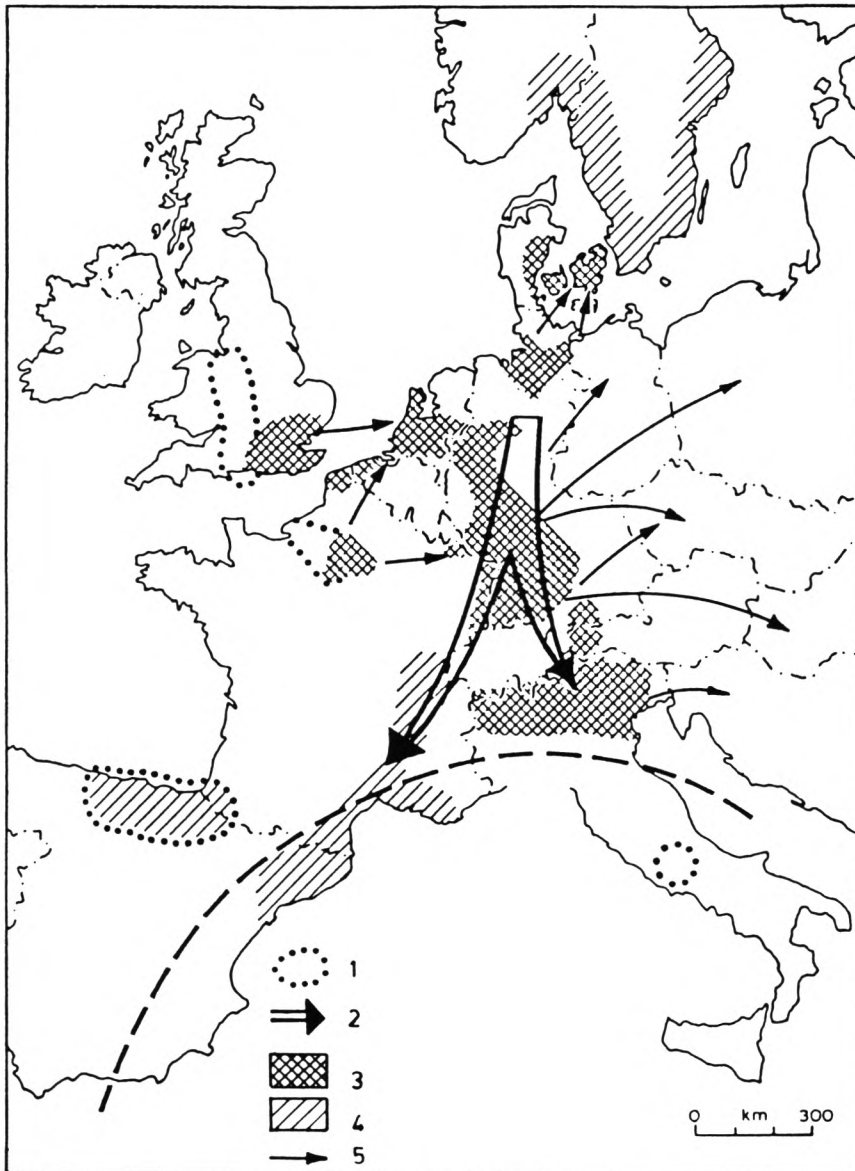
regions, however, made a spectacular breakthrough: West Berlin leapt ahead from the 48th to the 5th place, the Central-Italian Emilia-Romagna from the 60th to the 40th place.

In analyzing the development path of the Western European regions we can come to the conclusion that the centre of gravity will be shifted in the near future – in a way which is beneficial for Hungary – from the French–Benelux–West German triangle eastward in the direction of the South German and North Italian provinces (Figure 1). Thus it is not mere coincidence that – having thought over their development perspectives – these regions will set about shaping new lines of forces in integration. The provinces of the Central European states have established several regional cooperation associations since the early 1970s. In 1972 the International Conference of Lake Boden (its members being 6 Austrian, West German and Swiss regions), was established, at the same time 11 Austrian, Swiss, West German and Italian regions formed the Alps Working Group. In 1978 the Alps-Adria Working Community was set up and subsequently the Working Group of the Danubian Countries. These different cooperation projects are run on several lines and basically they have a consulting and economic character most actively initiated by the Free Bavarian State, the initiating and integrating role of which is motivated by economic considerations. The continuity of the traditionally strong German economic influence is guaranteed by the fact that West Germany continues to remain the pulling economy of Western Europe, which is making a slower progress along the technology-intensive growth path. In this framework the Bavarian economy (and recently Baden-Württemberg as well) bases its conversion into a regional growth centre very systematically on the Central European cooperation. The content of the cooperation involves the modernization of the economy, corporate structure and technology, its form entails regional cooperation between the administrative units. This foreign market strategy, which is based on regional grounds, already reckons with the consequences that the unified internal market programme of the European Community is bound to head for regional market restructuring and territorial re-differentiation.

The differences manifested in regional development, the migration of the growth poles, the following of different models of regional development from period to period have always resulted in a competitive situation between the regions. The Single Market, coming into being in 1992 will bring about an ever keener competitive situation. Although the sales possibilities of the regional economies will be more favourable on the free market, all this will apply to their rivals, too. Basically this is why nowadays so many Western European firms enter into fusion with the ventures of other countries (often with the help of the state or the regions). *An essential criterion of the European integration will be the strengthening of the interactions between regions and companies*, which at the same time will intensify competition as well as cooperation between regions and companies.

The *propensities* of the regions to cooperate emerge as a result of the identity of their economic structure, the similarity of their restructuring efforts, their geographical closeness or location by the border.

Figure 1
Economic power centres in Western Europe



Key: 1 – zones threatened by the spread of economic growth; 2 – direction of extension of regions with high per capita GDP; 3 – regions with high per capita GDP, 1986; 4 – zones linked to regions with high per capita incomes; 5 – main trade flows. *Source:* Clouth, H. D. 1981. p. 410.

In the economic revival of the regions, the so-called depression zones or old industrial districts struggling with similar structural problems, interregional cooperation has played a role for a long time now. The cooperation programmes of the French, Belgian, West German heavy industrial zones, the actions of the European alliance of depression zones have led to tangible results in the revival of the economic activities of these regions, in the elaboration of the regional policies of the European Community. The regional governments of these regions are also preparing themselves for the challenges of the Single Market coming into existence after 1992 by reformulating their foreign market policies. For instance, the Belgian government of Wallonia has already identified the European regions, the impulsive-intervention areas (Catalonia in Spain, Veneto in Italy, Baranya county in Hungary) with which it wants to develop close economic cooperation.

The other group of regions characterized by the identity of interests is made up of frontier provinces. In the Common Market conception – often under the pressure of regional political movements – the development of interregional relations has always been stressed. The joint utilization of the resources of the landscapes that often have ethnically mixed population and show similar historical-cultural or economic features has been a field of priority in the EC's policy. During the last 15 years varied industrial and commercial cooperation activity unfolded in the Western European frontier regions, joint programmes of infrastructure and environmental protection have been drawn up, the personal and institutional connections whose unfolding was also supported by internal legal and political institutions – beyond the generally liberal border-crossing system dating back several centuries – have become multitudinous and everyday. In 1980 at the ministerial meeting of the European Council in Madrid a general agreement was signed on the decentralization of cross-border cooperations. In accordance with this agreement the local and regional governments have authority to enter into independent international relations, which is the natural extension of the internal regional policies of these communities.

While in the regions mentioned above basically the identity of the regional interests is dominant, the pressure of the market to expand will give rise to the *proliferation of conflicting interests*. A lot of Western European cities have already made preparations for the future competition that will take place to win the favour of the European citizens and corporations.

A joint Common Market research team compared cities of the member-states, Austria and Switzerland with a population of over 200,000, on the grounds to what extent they come up to 16 criteria (the international prestige and dynamism of the cities were measured – among others – by examining the number of international firms and agencies to be found in them, the number of researchers at universities and research institutes, how busy the airports of the respective cities were and the number of fairs, international congresses organized per year). In the hierarchy headed by the big European cities the developed political and economic „co-centres” of the individual countries came next (e.g. Milan, Barcelona, Marseilles). The competitive positions of the regional centres show significant differences. An in-

triguing result which in all probabilities can be accounted for by town policy and strategy – is that the towns officially listed on the international investment markets (Trieste, Modena, Utrecht, Montpellier, Augsburg, Graz) were given a distinguished ranking.

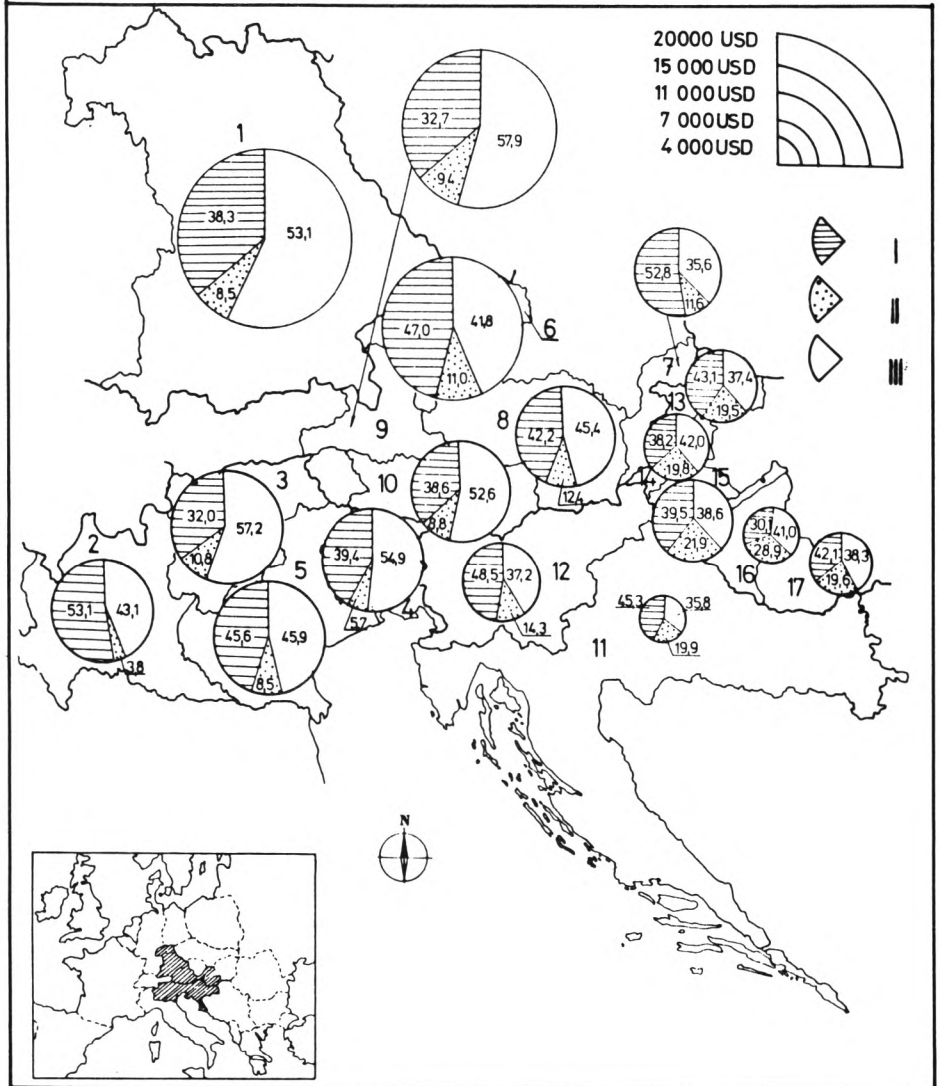
In determining the development strategies the Western European cities – and shortly Hungarian cities, too – have to consider that: a) among the determinants of economic growth the quality of the dwelling place, the cultural-scientific milieu of the city, the favourable condition of the dwelling environment should rank first, b) the intensity of the relationships between the European cities will increase as well as the role of the accessibility to and the ease of reach of cities, c) on the international markets the cities coming up with complex supply and having the ability to manage it will be upgraded, d) the influence of the national governments will decrease and the significance of the regional governments and supranational institutions will increase.

In the competition of the regions the Western European administrative units (provinces, counties, federal states) have good chances of a start on account of their endowments. During the last decades the economic and political power has been decentralized. The territorial units with great economic potential have gradually extended their economic and political powers, enhancing their authority. The diffusion of power, the division of sovereignty in accordance with the new structures unfolding within and without the state have become imperative need for the development of the post-industrial society.

The different *development companies, foundations, agencies and associations* have become determining factors in the forming and realization of the new regional competitive strategies. These development organizations are mostly non-profit institutions with state, private or mixed financing. Their task consists in the supporting and financing of the socio-economic development of spaces, providing consultation and information service. The Walloon Regional Development Foundation, the West German regional development companies, the Basque Mondragon Cooperative Group, the Italian regional consortia, the Dutch and Austrian regional development associations have all achieved results in strengthening the competitive positions of their respective regions that are worth investigating.

For Hungary the Western European challenges are only tasks of the future at the moment, although the first steps have already been taken. From among these the participation of five Hungarian counties in the *Alps-Adria Working Community* is the most important. The economic structure of the provinces of this Central European pre-integrative organization (covering 233,000 km² with 33,000,000 inhabitants) shows a great variety in competitiveness and comparativity. Great differences can be observed in the per capita gross regional product, the economic structure, the foreign trade orientation of the member-provinces and the changes of economic growth were rather diverse as well as the decision-making competence of the regional governments (*Figure 2*).

Figure 2
The share of the gross regional product by sectors in the Alps-Adria member-regions in 1989



Key: I – industry, II – agriculture and forestry, III – service; Member-regions of the Alps-Adria Working Community: *Germany*: 1 – Bavaria, *Italy*: 2 – Lombardy, 3 – Trentino-Alto Adige, 4 – Friuli-Venezia Giulia, 5 – Veneto, *Austria*: 6 – Upper-Austria, 7 – Burgenland, 8 – Styria, 9 – Salzburg, 10 – Carintia, *Yugoslavia*: 11 – Croatia, 12 – Slovenia, *Hungary*: 13 – Győr-Sopron, 14 – Vas, 15 – Zala, 16 – Somogy, 17 – Baranya.

Today cooperation encompasses mainly information exchange, the harmonization of linear infrastructures and the organization of cultural ties. Recently the exchange of experience has become regular between the leading economic organizations of the member-regions and the first germs of economic cooperation have also appeared. It would be an important step forward for the member-provinces and regional governments to give way to the Lombardian proposal urging the setting up of a joint regional financial institution with the purpose of financing joint investments above all.

Nevertheless attempts at dynamizing the Central European relations will not go beyond mere declarations and planning so long as the efforts made to realize them remain within a rigid organizational structure. The articulation of our counties participating in the cooperation into efficient regional integration might be promoted by organizational-institutional reforms and the regional decentralization of foreign trade (and foreign policy) licences. For the economic cooperation and the establishment of joint ventures management organizations, trading houses, regional foreign trading companies, banks and market research-marketing institutions are required. A task of utmost importance is the creation of the interestedness of the local regional organs and of the possibilities for them to have independent external relations, since the decision-making centres of most member-regions have strong autonomy in forming their own foreign policy.

To make possible the articulation of the Hungarian economy into advanced Europe, which is on its way to unification on regional grounds, the radical renewal of *regional policy* is needed. The power between the state, the local governments and their regional communities is to be divided in such a way that adjustment to the modernization centres will be influenced not only by the central norms but the favourable or unfavourable tendencies of the market also should be responded to through local-regional decisions.

Regional policy at crossroads

Nicolas Kaldor, the economist committed to the leftist trend of Keynesianism delivered a lecture entitled „The Case for Regional Policies” at the 5th general assembly of the Scottish Society of Economists in 1970. In his speech he explained the need for a regional policy in the underdeveloped region of Great Britain at the time of the temporary advance of the British Conservative forces. His train of thought was based on the „cumulation principle”. According to this, certain activities, regions and countries are getting into a better and better position, while the positions and possibilities of others are worsening. These processes – characterized by drifting away from the assumed condition of equilibrium –, on the other hand, require an economic-political response and suitable tools.

The Tory government of the very beginning of the 1970s as well as that of the '80s restricted the range of state interventions, reformulated the employment tasks of the state in support of strengthening the market structure of the economy, as

part of the policy restricting and reducing the institutions which ensure the horizontal redistribution of the welfare state. The economic policy of monetarism and the free market – on the basis of the principles of neoliberal macro-economics – drastically cut down on the regional development expenditure by nearly halving them, while the population rate of the spaces to be supported was reduced from the earlier 47% to 28%. Similar regional political changes took place also after other liberal-conservative governments had taken office. *The economic political orientation of these governments, the economic tendencies to be followed, and the views on the role of the state modified the form, content and institutional system of the regional policies.*

In addition to the neo-Keynesian and Liberal power and political struggles the modification and reformulation of the regional policies were affected by objective economic-structural changes, too. Monopolization and the concentration tendencies of the enterprise structure took another direction, the number of small ventures increased. The halt of the concentration of the enterprise structure moderated the possibility of the state economic policy to intervene. Since in addition to the capital information has become the primary strategic resource of the economy, there is a wider channel for entering wealth. The restructuring of the economy in the direction of decentralization, the social differentiation and the related changes in culture and life style also contributed to the modification of the political structure. The decentralization of the political structure materialized in political regionalism and the free organization of the local communities.

The economic and social policies of the post-industrial period have an impact upon the regional policies, too. The traditional regional development conceptions based on economic growth are increasingly replaced by new programmes. More and more elements of the regional policy are linked to economic restructuring.

The views on future regional policy – often between the fires of professional and political debate – can be divided into three distinct groups.

Apart from the views urging the *squeezing back* of regional policy, the advocates of regional policy fall into two groups. The supporters of one of the conceptions argue in favour of the *radical reform* of the regional policy and the strengthening of its positions. They lay stress on the strong revision of the traditional regional policy wanting to enable it to eliminate the acute regional crises and to reverse the regressive processes. Those objectives continue to stay at the forefront of the reassessed efforts of regional policy which try to stimulate the entrepreneurs to carry out activities by means of financial subsidies which they would not do in a given space without them. Undoubtedly there is a danger that regional policy may become marginal. This danger, however, can be removed if in addition to the incentives granted to enterprises, the complex transformation of the economic environment is also included among its objectives. That is, an infrastructure of high standard and the human resources are counted as essential conditions of stable recovery.

The third tendency of reformulating regional policy requires an even more complex approach than the one mentioned above. It advocates the elaboration of *regional development programmes* on a wide basis which is supported by the re-

gional investment programmes as well. All these are closely integrated into the process of the planning of public expenditure. The supporters of this conception find a realistic solution in strengthening coordination at the regional level and also in the coordination of the programmes of the central and local governments. Their objective is to eliminate disunity in the regional sense, which implies disunity of organs of the government, different ministries, authorities and institutions affecting the socio-economic processes of the regions.

The accomplishment of these efforts requires a two-dimensional change: on the one hand, at the level of the central government the transformation of the whole apparatus is required in such a way that it can integrate the regional factors into the economic policy and the planning of the of public revenues in their full complexity. On the other hand, suitable political-administrative frameworks should be established at the level of the regions as well. The determining of the priorities in the allocation of resources, the coordination of an *institutional system organizationally capable of projecting the complexity of tasks* are of cardinal importance.

From the analysis of the regional policies of the developed countries we can conclude that in the majority of the countries a *regionally based preferential supporting system* has come into being which is destined to give a solution of *non-symptomatic* character to the acute problems of spaces with labour surplus. In spite of the fact that economic policies are constructed on the basis of tasks aiming at nation-wide economic regeneration, the spatial aspects of the adaptation problems of the countries are not left out of consideration either.

The central governments have considered all the positive possibilities of the management of intervention, planning and restructuring. Today it is already obvious that intervention-free growth, or the interregional disparities of the rate of employment cannot be done away with. The neoliberal conception of an economy completely left to its own devices would not only prevent the moderation of old tensions but might also cause the emergence of new graver problems.

The state policy aiming at the development of the regions struggling with economic difficulties usually takes into account the following aspects:

a) *It determines the range of spaces in need of assistance on the basis of more comprehensive and complex criteria* than before. The system of criteria used includes in addition to the indices of the labour market and the data on labour resources the basic features of the economic structure and organizational system of the enterprises, the character and nodes of the bearers of innovation as well as the indicators of environmental-local endowments and values.

A criterion of utmost importance is that in order to be eligible for financial aid, a region should be able to produce an advantage manifested in some kind of an economic potential.

b) The regional preferential subsidies may only aim at the enhancement of the number of jobs, or rather the balance of employment possibilities. The *regional development subsidies* are usually *subjected to a restriction* which is based on the determination of the highest costs per job. If the jobs can be created by means of a sum which is higher than the determined limit, the subsidy is not granted.

General experience shows that the subsidizing of the tertiary sector greatly increased and also regional funds were created for the development of technology to extend the innovation possibilities and to support the training of the labour force related to the innovative conditions.

c) The regional subsidies are based on the principle of *selectivity*. The comprehensive selection based on a clear and coherent system of evaluation also promotes the coordination of the strategies of the regions and small spaces.

d) Important elements in the realization of the regional strategies are the development agencies and companies mentioned above.

e) The items of regional economic restructuring financed from public expenditure are subjected to parliamentary control, the decisions are usually prepared by the permanent parliamentary committee, and the forms of support set by the law serve as a safe long-term calculation basis for the managing-enterprising organizations.

From among the tools of regional policy it is most important to introduce the *financial incentive forms* in Hungary. The regional incentive policies have been modified several times in the countries of the European Community. The cause giving rise to these changes has most frequently been the reduction of expenditure. The most important point of regional stimulation has shifted from the earlier automatic solutions to the exclusive (discretionary) incentive forms. This incentive form – since the subsidies are granted on the basis of very strict criteria, it is not just „giving away” – forces out the very economical and efficient use of the state funds.

Another important feature of regional stimulation – and an important issue of debate on efficient regional policy – is the formation of the relationship between the centralization and decentralization of the regional subsidizing mechanisms. In spite of the fact that in a lot of places the resistance of the central authorities against the further widening of decentralization is strong, – giving the alleged intellectual incapability of the local organs as a reason – decentralized funds are dominant in the majority of the Western European countries.

The third essential characteristic feature of the functioning of the incentive system is rooted in the economic environment of the regional policy. In the countries that show a high unemployment rate – this is one of the fields of the activities of regional policy – stimulation is basically aimed at capital investments. The efficiency of capital-oriented stimulation is already a clearly proven fact as compared to labour-oriented subsidization. From the approximately 40 incentive forms applied in the countries of the European Community only 9 are directed at the special support of the workforce.

The fourth basic issue of the incentive-oriented regional policy is how the range of activities to be supported is selected. The general tendency is that there is a gradual increase in the backing of the tertiary sphere, nearly in all the countries the activities connected with tourism, business, consultation, developments and R + D of information processing and consumer services. The majority of the subsidies granted to the industrial sectors gets into the processing industry, while the share of the extractive and primary producing industries is negligible.

In Hungary the most important basis of restructuring will be the *sphere of small and medium-sized enterprises*, which is the driving force of Western European changes as well. The qualitative requirements of economic restructuring lead to changes in the conceptions of industrial policy, too. Two closely interrelated tendencies are in the forefront of the new industrial strategy: on the one hand, the so-called deindustrialization processes (that is, the reduction of the „chimney-stack industry” having been located in the 19th century) and the launching of reindustrialization, on the other hand (the location of industrial plants manufacturing high technology, computerization of the production etc.). Economic policy is to create a favourable general socio-economic environment for the development of small and medium enterprises and eliminate the factors hindering their operation.

The local and regional governments have to form their own industrial policies in line with the national restructuring programmes – or quite independently. They will be often forced to use new industrial-political tools the range of which is, of course, generally affected by the restricted economic power of the local governments. Nevertheless the local governments have to undertake the role of contributing to the revitalization of the economy of their respective region by organizing the establishment of new ventures and introducing new production tasks.

In the local-regional market relations the *role of the cooperation of the local communities* will increase, since economic adjustment depends not on the individual output of isolated small entrepreneurs, but rather on the mutual flow of innovations, on long-term partnership. This requires such an economic-psychological atmosphere in which people are united by economic targets as well as by the objectives of the rise of the environment, the settlement and the local society. Thus in addition to market automatism the professional and cultural norms of the local communities will also become prime movers of the economic rationality.

A very important condition of the implementation of innovative regional development strategy and of the creation of international regional competitiveness is the *radical reform of the regional-administrative system* of the country. The present Hungarian counties – on account of their economic potential, population number, market size, the weakness of their economic organizational competence – are unsuitable for representing an independent field of activity in the internal regional division of labour and for becoming equal partners of the West European regions. A solution can be brought about by the organization of the regional administration of the country.

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MAGYAR

Gazdasági

KAMARA



SOUTH-TRANSDANUBIAN CHAMBER OF COMMERCE

The Chamber of the South-Transdanubian region unites the Industrial, Trade and Commercial chambers of four counties. These chambers accomplish independent work coordinated by the Chamber.



South-Transdanubian Chamber of Commerce and at the same time the Chamber of Industry and Trade of Pécs–Baranya

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The Goals of the Chamber

- developing commerce and trade of the South-Transdanubian region on the principles of free-market economy,
- organising the foreign trade connections of the region and inserting enterprises in the international commercial circulation,
- representing commerce in public in relation to the employees and their organizations, and the authorities,
- reconciling clashes of interest between trades and entrepreneurs of the regions



Firms can ask for reconciliation given by the Chamber in matters in dispute. Agreements of this kind will be countersigned and their observance supervised by the Chamber. The Ethical Committee of the Chamber – on the initiative of the firms – takes a stand in cases offending the ethical norms of business-life and makes the decision public.

Firms can turn to the arbitral Court of the Chamber in matters in dispute concerning both internal and external trade.

In order to reach these goals, working relations are maintained with regional, town and county communities, with trade unions, various organizations of commerce-management, the government, and the MPs of the region.

Services Offered to Enterprises of the Region

On the basis of international agreements and provisions of law, and under power of state management authorization, we issue in foreign trade connections certificates of origin, the ATA-came, the vis maior certificates of commodities, furthermore we contribute to the management of cases of damage concerning legal quality defence and transport in relation to the international commercial connections.

We promote the market-work of entrepreneurs through:

- organising meetings and seminars for businessmen,
- giving help with foreign market-research and publicity-work,
- giving information on legal measures of other countries and the tenders of the World-Bank,
- organising both international and national fairs, or giving assistance with their organization, giving information about other international exhibitions and fairs,
- giving information about decisions in economic policy (and about their preparatory work), and the forming of provisions of law bearing great importance on questions of:
 - trade-techniques, external-trade law, and company law,
 - customs,
 - finance,
 - assessment of property,
 - transportation,
 - law of labour,
 - privatisation,
- organising national and international continuation courses for managers, language courses, schools, and conferences.

ON ECONOMIC AND GEOGRAPHICAL DEVELOPMENT OF ESTONIA IN 1945–1990

KALEV KUKK

Introduction

The present-day Estonian economy with its structure and basic geographical traits is an outcome of long historical development. As any other country and nation, Estonia has her own history of economic development in which the roots of the modern economy are laid. On the other hand, the whole centuries and millennia-long development is in some way reflected in the present state of affairs. Of course, in order to understand the present-day Estonian economy, one need not go back to the 8th millennium B.C. when man settled on the coast of the Baltic Sea after the Ice Age, or to the 3rd millennium B.C. when Finno-Ugric tribes, i.e. the ancestors of Estonians reached these areas. Neither is there need to go back to the 13th century A.D., which is the beginning of the so-called written history of Estonia. The centuries-old economic life and spatial organization of society have later on changed repeatedly. It usually suffices to glance back into the 19th century which is the beginning of the development of industry and capitalist production relations in agriculture in Estonia. However, the base for the modern Estonian economy was laid in the 1930s. The remoter past is of interest mainly from the aspect of cultural history. True enough, for a profound understanding of the development logic of the settlement system one should be acquainted with such records dating from the 13th century as *The Chronicle of Henry of Livonia* (*Heinrici Chronicon Livoniae*) and the so-called *Danish Census Book* (*Liber Censu Daniae*).

The 20th century metamorphoses

The development of economy in the 20th century has largely been a history of political convulsions with two major turning points: World War I and World War II. The birth of the independent Republic of Estonia as a result of World War I in 1918 was the origin of the formation of the national Estonian economy, i.e. an

economy centred on Estonia. World War II, on the contrary, brought about the loss of both Estonian statehood and her national economy.

The whole post-World War II economic development has been directly dependent upon political-economic actions originating from Moscow. Altogether five qualitatively different periods could be distinguished in the economic development of Estonia during the present century:

I The first two decades of the century when the area inhabited by Estonians, which belonged to tsarist Russia, served as the Russian colonial empire's outpost in Europe also in economic sense.

II 1920–1940. These were years of nationally centred though not outarkic development, based mainly on internal resources (the period of independent Republic of Estonia, a member of the League of Nations).

III 1945–1956. This decade after World War II was the time when the totalitarian economic system approbated in the Soviet Union in the 1920s–1930s was established in Estonia and the economy ruined in the course of the war waged between the Soviet Union and Germany was restored and extensively developed proceeding from extraneous interests (the period of the so-called Stalinist economic model).

IV 1957–1964. These were years relatively favourable for Estonian interests thanks to territorial decentralization of economic management in the Soviet Union (period of the so-called Khrushchev's economic model).

V 1965–1989? These were years of the development (i.e. ruination) of economy proceeding purely from imperial interests of the Soviet Union during which the economic structure and the allocation of resources and output were determined considering only the interests of the centre (period of the so-called Brezhnevist economic model). The final answer to the question whether the year 1990 was the beginning of a new period in Estonian economy, this time that of the rebirth of Estonian national economy, will be given by time.

Sovietization of Estonian economy

So, the mid-1940s were the beginning of a qualitatively peculiar period in the economic development of Estonia. The end of World War II had de facto fixed the military and political annexation of Estonia by the Soviet Union, which had come out of the war as a winner. The next logical step of the Soviet Union was economic annexation of Estonia, i.e. Estonia was joined to the unitary imperial economic system of the Soviet Union as its formal constituent republic. As the subsequent years have shown, this resulted in:

1) Liquidation of the earlier integral economic structure (ruination of agriculture that was highly developed according to the then criteria; substitution of industries oriented toward local resources and consumers by the so-called all-Union specialization branches; cutting off relations with the world economy);

2) Alienation of the producer from the means of production (liquidation of private ownership of production means);

3) Mechanical application of the totalitarian economic model approbated already earlier in the Soviet Union (the so-called socialist planned economy) labelled as post-war restoration and socialist reconstruction of Estonian economy (which meant extensive industrialization and collectivization of agriculture by the use of violence);

4) Russification of Estonia (deportation of indigenous population, promotion of non-Estonians or the so-called Russian-speaking population, creation of untraditional industries and jobs, ousting indigenous people from several industries and areas of Estonia);

5) Turning Estonia into Leningrad's economic hinterland. This undertaking was „legally” fixed by the decree of the then USSR State Defence Committee (in essence the government) from June 10, 1945, on the Reconstruction and Development of the Oil-Shale Industry in the Estonian SSR and the Leningrad Oblast and on Supplying Leningrad with Gas. The decree envisaged extremely rapid development of the oil-shale industry in Estonia to supply Leningrad's population with gas and its industry and transportation with liquid fuels produced from oil-shale.

From the economic point of view, the annexation of Estonia was stimulated by the existence of well-developed technical and social infrastructure as well as her production traditions and high work culture, which in the Soviet Union had been destroyed by that time already. Easily accessible natural resources, particularly rich oil-shale deposits in North-East Estonia (with the calorific value 3000–4000 kcal/kg), forests, and higher living standards than in the neighbouring eastern areas were also attractive. For these reasons it was relatively cheaper and economically less risky to make investments in Estonia than in the majority of Soviet areas. Proximity to Leningrad was unquestionably the strongest economic argument orienting Estonian post-war industrial development toward the oil-shale industry.

Therefore, the investment policy of the second half of the 1940s and the early 1950s was focussed primarily on the oil-shale industry since, as already said, Leningrad required Estonian oil-shale, or to be more exact, gas and oil produced from it. All together the oil-shale industry engulfed over a half of all industrial investments in 1946–1950 (e.g. 58 per cent and 42 per cent in 1946 and 1950, respectively). Actually, the orientation toward oil-shale was even stronger at that time as investments into power engineering, engineering, and the building materials industry, as well as those into transport and housing were also connected with the development of the oil-shale industry. Such priority investment guaranteed the fuel industry the highest growth rate among the industries in 1946–1950 (a 6.7-fold rise according to official statistics); nevertheless, its contribution to the Estonian industrial output was less than modest as the oil-shale itself did not cost anything (*Table 4*).

Besides focussing on oil-shale, another main trait of the so-called socialist reconstruction of Estonian economy was orientation to imperial interests. Namely, investments made into Estonian economy, particularly into industry went

predominantly to enterprises belonging to all-Union ministries. In 1946–1950, for example, 66 per cent of all the investments went to all-Union ministries, while the share of enterprises and organizations under all-Union and republican subordination was 18 per cent, and that of republican enterprises and organizations 16 per cent. Where these investments came from was of no importance for a society fetishising the distribution system. All the incomes went to the centre (to the „common bowl”) from where something was given back and labelled as „fraternal aid” of the Government or other constituent republics of the USSR. As a result of such an investment policy and earlier nationalization, the so-called extra-territorial economy (*Table 6*) was created in Estonia. Forced collectivization carried out mainly in 1949–1950 was yet another important feature of the „socialist reconstruction” of Estonian economy. In essence, it destroyed the Estonian well-developed agriculture. (As compared with 1940, meat output decreased by 15 per cent and milk output by 29 per cent by 1955.) Like in the Soviet Union in the 1920s–1930s, agriculture had to pay for the industrialization in Estonia, too.

It is not difficult to see that the „socialist reconstruction” carried out in Estonia has nearly all characteristics of colonization, such as liquidation of the earlier economic structure, establishment of a production structure corresponding to alien interests, migration and employment policies directed toward assimilation of the indigenous population (in 1945–1950 alone about 200,000 colonists settled in Estonian towns, see also *Table 1*), rapacious exploitation of natural resources, pollution of environment, cutting off former economic ties etc. The economic policy applied by the Soviet Union toward Estonia could be summarized with the words of *Rein Taagepera*, a professor of the University of California of Estonian origin: „It was an industry based on Russian investment and Russian labor, managed by Russians according to goals set by Russians, importing a large part of the raw materials from Russia, and exporting most of its product. The whole show was called ‘Baltic’ industrial growth because the soviets decided to run it on Baltic soil” (*Misiunas, R.J. – Taagepera, R. 1983, p. 107.*)

The transition from the earlier purely departmental management to the system of national economic councils based on the priority of territorial management which took place in the Soviet Union in 1957, brought about a new economic ideology and strategy also in Estonia. Though the so-called Khrushchev’s economic model changed very little in the Soviet totalitarian system of economic management, the years of national economic councils (1957–1964) proved the most successful against the background of the whole post-war economic development in Estonia. In these years up-to-date for that time power engineering (as to the per capita production of electric energy, Estonia hold in the 1970s conditionally the third place in the world) and engineering were created in Estonia. In agriculture, the pre-war level was at last surpassed.

The quantitative and qualitative shifts that took place in the Estonian economy in these years can be attributed directly to the notable strengthening of Estonian-centred, though still purely administrative economic management. For example, the enterprises under republican subordination accounted for 98–99 per cent of the

total industrial output in 1958–1962; this percentage is especially remarkable against the background of about 10 per cent during the next quarter of the century (*Table 6*).

In 1965 the Soviet Union returned to the former departmental management. This put a final end to the organizational and functional integrity of the Estonian national economy. Every ministry, be it located in Tallinn or Moscow, was assigned its own economy as a result of whose „development” the production structure in Estonia became increasingly less efficient (the ratio of price indices of the net material product produced and consumed in 1971–1988 was 0.844; this index can be interpreted analogously to the index terms of trade used in international trade). During the last quarter of the century the Estonian economy was turned actually into an abstraction, which in its turn was an extremely comfortable way for the central authorities for pursuing their assimilation policies. As a result of such politically and economically directed immigration, i.e. colonization, the proportion of Estonians in the total population of Estonia (within its present boundaries) decreased from 93–94 per cent in 1940 to 61.5 per cent in 1989 (*Table 1*). Out of the 369,000 increase during the period between the 1959 and 1989 population censuses, Estonians accounted but for 19 per cent. The net immigration was 256,600 in 1950–1989. Even today the number of Estonians living in Estonia is smaller than in the 1920s–1930s.

The first blow to such empire-centred economic policy was dealt by the idea of economic autonomy (the so-called IME – miracle project) raised in 1987. This project became later the consolidating core of the independence movement. The year 1990 witnessed already the first real steps toward an Estonia-centred economy, i.e. toward the rebirth of a genuine Estonian national economy.

Economic structure and development level

Present-day Estonia is usually regarded as an industrial- agrarian country. Such an approach is based on the macrostructure of the economy: in recent years industry has given about 60 per cent of the gross material product (GMP) and 40 per cent of the net material product (NMP). The respective indices for agriculture are about 20 per cent (*Table 2*). Out of the actively engaged population 32 per cent work in industry and 12 per cent in agriculture (*Table 3*). The predominating industries are light and food processing industries, engineering, and metal industry, which account for 2/3 of the total output of Estonian civil industry, and even 3/4 of her export. In light industry the production of cotton and woollen textiles, clothing, knitted goods and footwear prevail. The main branches of the food processing industry are fish processing based chiefly on open-sea fishing, and meat and dairy industries processing local farm produce. The engineering and metal industry, subordinated predominantly to the central authorities, is known for electric engineering (electric motors, transformers etc.) and apparatus building as well as products like multi-bucket excavators, air coolers for the oil and gas industries, and safety belts for

cars, which enjoy a monopolistic state on Soviet markets. Considering the world standards, the most highly developed industry in Estonia is the forest, timber, pulp and paper industry, whose major products are furniture, pulp, paper, wood particle and fibre boards, and skis. The importance of the chemical industry and power engineering based mainly on local oil-shale is smaller (*Tables 4, 5*).

A specific feature of Estonian agriculture is the abnormally high share of animal husbandry (about 70 per cent of the total agricultural output), with 80 per cent of the output of crop-growing consumed as feed for the animals. Dairy and beef cattle breeding and pig raising predominate. Imported grain accounted for 50–60 per cent of the consumed grain (about 2 million tons in the second half of the 1980s) in the years discussed (*Table 5*).

The most important quantitative parameters (proportion in the GMP and NMP as well as in employment) are presented in *Tables 2, 3*.

It is quite difficult to estimate quantitatively the present level of economic development in Estonia. Estonian economy, like that of the whole Soviet Union, is an illusory economy characterized on the one hand by strikingly high production indices (in 1989 the per capita production of electric energy was 11,163 kWh, that of cement 716 kg, cotton textiles 119 m², meat 145 kg, milk 810 kg etc.), and on the other, by all-encompassing shortage of both producer and consumer goods. Moreover, aggregate indices are generally „technologically” unsuitable for international comparisons. As is known, the GMP and NMP here include only the so-called material production; besides, the price structure on Soviet domestic market is turned so-to-say upside down as compared with the other countries. On top of all this, Soviet rouble lacks any relationship with internationally convertible currencies. For these reasons, even such an index as per capita GNP gives little information in Estonia, it has officially been calculated only in recent years; in 1989 it totalled 4,030 roubles.

Unfortunately, these 4,030 roubles are equivalent neither to ca 6,500 USD (according to the official exchange rate of the rouble and dollar) nor 650 USD (the so-called tourist exchange rate). The value of the GNP per each inhabitant of Estonia could be estimated at about 2,200–2,300 USD; this figure makes Estonia comparable with Hungary. This estimate is confirmed also by a study made by the International Monetary Fund and the World Bank, according to which the per capita GNP in the Soviet Union was 1,780 USD in 1989 (*The Economy ...*, 1990, p. 51.).

No doubt, Estonia is one of the most highly developed parts of the Soviet Union (*Table 10*). In 1989 the basic parameters of national economy in Estonia were higher than the respective averages of the whole Soviet Union: GNP – 25 per cent, GMP – 34 per cent, NMP – 24 per cent, total industrial production – 32 per cent, total agricultural production – 55 per cent. As these comparisons are based on prices, subjectively fixed by the administration, one should accept them with reservation; see also *Table 10*.

Openness of economy and economic relations

Intensive foreign relations have been characteristic of Estonian economy at all times. According to the 1987 input-output table, the share of export was 27 per cent in the GMP; the share of import in „material” consumption (i.e. without considering the export and import of services) was 31 per cent. In the same year, 41 per cent of the gross industrial product was exported; import accounted for 45 per cent of the industrial products consumed. The ratio of export and GNP, used in international comparisons, was 49–50 per cent in 1987–1989.

In Estonian export as well as import, products of the food processing, light, and engineering and metal industries have traditionally prevailed (*Table 7*). Major export items of light industry are cotton and woollen textiles, clothes, knitwear, and footwear; its imports include mainly raw materials and other materials (cotton fibre, wool, leather, various textiles), also clothing and knitwear are imported. As to foodstuffs, fish, tins, meat, butter, and confectionery are exported, and sugar, wine, cognac, vegetable oil and fat are imported. Among the exports of the engineering and metal industry various electrotechnical products, apparatuses, excavators, air coolers, and safety belts predominate. Machinery, equipment, and parts for various industries as well as vehicles, agricultural machinery, and household appliances are imported. As to export articles, also electric energy, oil-shale products, mineral fertilizers, plastics, furniture, pulp, paper, and toys are worth mentioning. Imports include in addition to the above-mentioned articles also oil products, natural gas, raw materials for the chemical industry, timber, pulp, and grain.

The geographical pattern of Estonian import and export is extremely one-directional due to the autarkic economic policy of the USSR. As already said, the annexation of Estonia by the Soviet Union isolated Estonia from the world market. Her former interrelations with the West were cut short and they were to be replaced by „fraternal cooperation with the other constituent republics of the Soviet Union”. Moreover, the end of Estonian statehood and her becoming a formal republic of the USSR put actually an end to Estonia’s economic ties, too. They even did not exist for statistics (the respective statistical information was until recently collected only for input-output tables of the GMP compiled once in every five years, and even this information was in accounting prices). Economic relations between Estonia and Latvia (or the Ukraine and Georgia) did not mean relations between these „republics”, but the sum total of supplies allocated by Moscow in the form of funds and limits to enterprises located by chance on their territories. Instead of contacts with other countries, enterprises and organizations maintained contacts with all-Union foreign trade associations. The rebirth of Estonia’s own economic relations took place in 1990.

In the 1980s, 93–95 per cent of Estonia’s export, calculated at the prices valid on domestic market, went to other parts of the Soviet Union. In the 1930s the situation was quite different: the present eastern market, i.e. the Soviet Union, Latvia, and Lithuania accounted for 5–9 per cent of the export of the Republic of Estonia. In Estonia’s import, the share of the eastern market was 81–82 per cent in the 1980s

and 6–15 per cent in the 1930 (*Table 8*). In the present-day geographical structure of Estonia's export the leading position is held by Russia (56 per cent in 1987), next come the Ukraine (12 per cent), Latvia (7 per cent), and Byelorussia (5 per cent). Among foreign countries, the most important partners are Poland, Finland, Hungary, Rumania, Germany, and Cuba; however, in Estonia's total export none of them accounts for even 1 per cent. The most important import partners of Estonia were Russia (48 per cent), the Ukraine (12 per cent), Byelorussia (6 per cent), and Latvia (5 per cent) in 1987.

Basic proportions of the spatial structure of economy

A characteristic feature of the location pattern of Estonian economy is a rather marked differentiation, especially so in the location of population and industry. Soviet economic policy, aimed at extensive industrial growth, resulted in rapid absolute and relative increase of urban population: over 1940–1990 respectively 3.2 times and from 33.6 per cent to 71.6 per cent. General urbanization was accompanied by the concentration of population and, simultaneously, industrial serving functions into big towns, especially the capital Tallinn. So, the share of the five biggest towns (Tallinn, Tartu, Narva, Kohtla-Järve, and Pärnu) grew from 26–27 per cent in 1940 to 51.3 per cent in 1990, and that of Tallinn increased from 16–17 per cent to 30.6 per cent. These towns gave 69 per cent, 76 per cent, and 77 per cent of the industrial output in 1955, 1975, and 1989, respectively. Tallinn accounted for 42 per cent, 38 per cent, and 38 per cent of the industrial output in those years. Rural population and agricultural production have been distributed notably more uniformly. Considering yields of crops, productivity of animals, and other indicators, the counties of Järva and Lääne-Viru can be regarded as the most highly developed agricultural areas.

Usually five socio-economic regions are distinguished in Estonia:

I North-West Estonia comprising the counties of Harju, Lääne, Rapla, and Järva, and the city of Tallinn,

II North-East Estonia comprising the counties of Lääne-Viru and Ida-Viru, and the towns of Narva, Kohtla-Järve, and Sillamäe,

III South-West Estonia comprising the counties of Pärnu and Viljandi and the town of Pärnu,

IV South-East Estonia comprising the counties of Jõgeva, Tartu, Põlva, Valga, and Võru and the town of Tartu,

V West Estonian islands comprising the counties of Saare and Hiiumaa.

A quantitative characterization of these regions is given in *Table 9*. Economically and socially greatly differing regions beginning with over-industrialized conflict areas to depressive ones become evident on such an aggregated level as well as in more detailed approaches. For example, on the so-called county level, the following types of economic associations could be distinguished (*Nõmmik, S.N.* 1987, pp. 32–33.):

- 1) old polyfunctional regions (Harju County),
- 2) young industrial regions (Ida-Viru County),
- 3) industrial-agricultural regions (the counties of Lääne-Viru, Jõgeva, Tartu, and Pärnu),
- 4) regions with intensive agriculture (the counties of Järva, Rapla, and Viljandi),
- 5) regions with an average level of agricultural development (the counties of Põlva, Valga, and Võru),
- 6) regions with extensive agriculture and fishing (the counties of Lääne, Saare, and Hiiumaa).

What is the price of soviet power for a nation?

Recently there has been much discussion about the question how much Estonia has had to pay for half a century of economic development according to the Soviet model. Its direct price includes mass deportations, ruination of agriculture, spiritual violence, ethnic problems resulting from the assimilation policy, destruction of owner's attitude resp. owner's skills in work, and so on and so forth. In addition to such direct damage we can also speak of indirect one, i.e. about what Estonia has not achieved due to the loss of independence in 1940. Setting such a question might seem nonsense, but it is actually quite logical.

For the majority of Estonians a synonym for normal economic development is the present reality in Finland. Regarding Finland as an etalon is justified as the pre-war development levels of Estonia and Finland were nearly equal, their natural and historical conditions are similar, and the value estimates of Estonians and Finns are close due to their cultural background. As today Finland's economic superiority is unquestionable, one can ask what Estonia has not got due to the fact that she could not develop under political and economic conditions analogous to those of Finland, i.e. as an independent „capitalist” country?

Here the most suitable measure seems to be the value of the so-called unreceived GNP. Such an approach suggests that the trend of per capita GNP in Finland should be regarded as the hypothetical (i.e. normal) development model of Estonia. In this case the difference between the hypothetical and actual GNP would show how much income was not received in Estonia per one inhabitant.

Here the problem is lack of necessary data on Estonia which could be compared with those about Finland (here data provided by the World Bank have been used). Namely in the Soviet Union as well as in Estonia GNP was officially calculated for the first time as late as 1987. In that year the per capita GNP in Estonia was 3,700 roubles.

Below the years 1968–1987 or the so-called period of developed socialism is offered (availability of comparable information about Finland was the decisive factor in choosing this period). In the subsequent calculations the following allowances are made:

1) The per capita GNP in Estonia in 1968 is taken as equal to the respective Finnish index, i.e. 1,720 USD (which is an obvious overestimation of Estonian situation);

2) Estonian per capita GNP is assumed to have increased linearly over the period studied.

These simplifications do not make much difference in the sum of incomes Estonia did not get. A much more serious problem consists in fixing the value of Estonia's GNP in dollars, as there does not exist any unequivocal relationship between the dollar and the rouble. For this reason, five variants of calculations were made differing from one another by the relationship of rouble/dollar on the basis of which the values of the 1968 GNP in Estonia in roubles and the dollar values of the time series 1969–1987 were found. In so doing the following „exchange rate scenarios” were used:

Variant I is based on the official exchange rate at the end of the respective year;

Variants II-V proceed from interpolated accounting exchange rates derived from the official exchange rate established in 1961 (1 USD = 0.90 roubles) and the „freely chosen rate” of 1987. In Variant II, the 1987 exchange rate is taken equal to the average coefficient of foreign exchange efficiency of Estonian import suggested by the USSR State Statistical Board (1 rouble = 0.667 SUR = 1.108 USD, or 1 USD = 0.902 roubles) (Argumenty..., 1989). In Variant III, the per capita GNPs in Estonia and in Hungary are assumed to be equal (2,240 USD in Hungary according to the World Bank data). In that case the 1987 rate would be 1 USD = 1.65 roubles. In variants IV and V the rates are chosen mechanically, respectively 1 USD = 2 roubles and 1 USD = 4 roubles; i.e. in both cases the exchange rates are considerably lower than the black market rates.

According to the different calculation variants the value of the GNP Estonia did not get in 1969–1987 was as follows (on the basis of the actual population number):

Variant I: 107 billion USD or 51 per cent of the hypothetical possible GNP under „Finnish” conditions;

Variant II: 127 billion USD or 60 per cent;

Variant III: 153 billion USD or 73 per cent;

Variant IV: 159 billion USD or 76 per cent;

Variant V: 175 billion USD or 83 per cent.

Our experience says that variants I and II are overoptimistic with regard to Estonia. Variant III (the so-called Hungarian variant) may be regarded as the minimum value of GNP not received in Estonia in 1969–1987, or as the minimum price paid for the Soviet development model. These 150 billion or more dollars mean unbuilt production and infrastructure projects, low living standards, and the like.

Conclusion

Once again, for the second time during the present century, Estonia is at the beginning of the road to independence. This means the restoration of Estonian own economy, this means renouncing Soviet totalitarian economic system. This means reintegration with the world economy. Frequent attempts have been made to prove economic inviability of an independent Estonian state. Estonia is said to be too small, she is said to have nothing to sell to the West, she is said to possess no natural resources which could be sold. World history has demonstrated clearly enough the absurdity of such reasoning; moreover, Estonia has already proved her viability as an independent state clearly enough in this century.

It is interesting to note that Deutsche Bank has estimated the economic potential of the independence of the Baltic states as even higher than that of Russia: the ranking of the Baltics is 77, that of Russia 72 and the Ukraine 83 (*Table 11*) (*Die Sowjetunion...*, 1990, p. 9.). In its calculations Deutsche Bank estimates Estonian mineral resources potential to be equal to zero. To prove the unacceptability of this estimate it suffices to say that Estonia holds the sixth place in the world for per capita production of electric energy. As such a level has been achieved on the basis of local oil shale, at least 3–5 scores might be added to Estonia's ranking, and this would raise her ranking to 80–82.

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APPENDIX

Some statistics on Estonian economy

Table 1
Population number and ethnic composition
(data of censuses)

Year	Population number	Among them		Percentage of	
		Estonians	Russians	Estonians	Russians
1922	1,107,059	969,967	91,109	87.7	8.2
1934	1,126,413	992,520	92,656	88.2	8.2
1940 ^a	1,122,100	ca.1,000,000	...	90.0	...
1940 ^b	1,054,400	ca.980,000	...	93-94	...
1945 ^c	854,000	ca.800,000	...	93-95	...
1950 ^c	1,096,700	...	...	...	...
1959	1,196,791	892,653	240,227	74.6	20.1
1970	1,356,079	925,157	334,620	68.2	24.7
1979	1,464,476	947,812	408,778	64.7	27.9
1989	1,565,662	963,281	474,834	61.5	30.3
1990 ^c	1,582,800	...	...	...	...

e – estimate

Note: Data for 1922, 1934 and 1940^a involve people living within the boundaries of the Republic of Estonia (47,450 km²); data for 1940^b and later years refer to people living within the present administrative boundaries (45,215km²). 1979 and 1989 census data refer to the permanent population. The actual number of inhabitants in these years was 1,465,799 and 1,572,916, respectively.

Table 2
Structure of national economy at actual prices, %

Material product	1960	1970	1980	1989
<i>A: Gross material product</i>				
Total				
– in millions roubles	2,219.3	5,050.4	8,277.4	11,503.2
– as percentage	100.0	100.0	100.0	100.0
Among it				
industry	60.3	62.9	63.6	60.2
agriculture and forestry	20.9	18.6	16.4	19.5
transport and communications	3.2	3.6	3.7	4.7
construction	8.8	9.0	8.0	8.8
trade, material and technical supplies, state purchasing and other branches	6.8	5.9	8.3	6.8
<i>B: Net material product</i>				
Total				
– in millions roubles	984.8	2,164.8	3,222.0	4,477.5
– as percentage	100.0	100.0	100.0	100.0
Among it				
industry	47.5	50.4	49.8	43.7
agriculture and forestry	27.0	24.2	16.5	25.3
transport and communications	3.9	4.9	4.9	6.2
construction	8.5	8.9	9.4	10.9
trade, material and technical supplies, state purchasing and other branches	13.1	11.6	19.4	13.9

Source: Eesti NSV rahvamajandus ... aastal. Statistika aastaraamat. Tallinn (the respective years); Eesti statistika aastaraamat 1990. Tallinn, 1991.

Table 3
Distribution of actively engaged population by sectors in Estonia
and some other countries, %

Country	Agriculture and forestry	Industry	Construction	Transport and communications	Trade and catering*	Miscellaneous
Estonia						
1960	26.5	31.5	7.4	9.2	6.4	19.0
1970	16.1	35.1	9.3	9.3	8.3	21.9
1980	13.9	33.9	9.1	9.5	9.1	24.5
1989	12.9	32.0	9.9	8.4	9.0	27.8
Finland (1987)	10.0	23.0	8.0	7.0	14.0	38.0
Sweden (1987)	4.0	23.0	6.0	7.0	14.0	46.0
Norway (1987)	7.0	19.0	8.0	8.0	18.0	40.0
Denmark (1986)	6.0	21.0	7.0	7.0	14.0	45.0
Greece (1986)	27.0	21.0	7.0	7.0	15.0	23.0
Portugal (1987)	21.0	25.0	8.0	4.0	13.0	29.0
Hungary (1987)	21.0	31.0	7.0	8.0	11.0	22.0
USSR (1989)	19.0	39.0	7.0	8.0	27.0	

*In case of Estonia and the USSR this figure includes also material and technical supplies, marketing and state purchases, in case of the other countries, also the hotel industry.

Source: Eesti NSV rahvamajandus ... aastal. Statistika aastaraamat. Tallinn (the respective years); Eesti statistika aastaraamat 1990. Tallinn, 1991; Statistical yearbook of Finland 1990. Helsinki, 1990; Narodnoye khozyaystvo SSSR v 1989 g. Statistichesky yezhegodnik. Moscow, 1990.

Table 4
Structure of the output of civil industry, %

Branch		1950	1960	1970	1980	1989
Power engineering	A*	2.6	2.8	5.3	5.2	5.1
	B*	1.0	2.0	6.4	6.2	4.7
Fuel industry	A	8.7	7.4	5.5	6.4	2.2**
	B	8.0	6.0	5.9	6.8	5.5
Chemical industry	A	1.8	2.4	3.1	3.2	7.8**
	B	2.0	3.0	3.1	3.1	3.3
Engineering and metal industry	A	12.6	13.8	14.3	17.5	16.5
	B	5.0	6.0	10.5	14.4	17.2
Forest, timber, pulp, paper industry	A	14.6	9.7	8.2	7.4	8.9
	B	16.0	11.0	8.7	7.9	9.0
Building materials industry	A	3.9	4.1	4.6	4.0	4.3
	B	3.0	4.0	4.8	4.4	4.4
Light industry	A	20.9	27.2	23.2	21.2	22.7
	B	31.0	35.0	28.2	23.4	22.7
Food processing industry	A	30.5	29.5	30.2	28.2	25.0
	B	34.0	33.0	30.4	28.0	26.0
Total industry		100.0	100.0	100.0	100.0	100.0

*A – at fixed prices of the respective year; B – at the prices valid in 1985 (the author's calculations).

**The internal structure of the branch was changed.

Source: Eesti Nõukogude Entsüklopeedia. II kd. Tallinn, 1987, p. 321; Eesti tööstus 1989. Statistika kogumik. Tallinn, 1990.

Table 5
Output of major industrial and agricultural products

Branch	1970	1980	1989	%*
<i>Industry</i>				
oil shale (million tons)	18.9	31.3	23.3	...
electric power (billion kWh)	11.6	19.0	17.6	1.0
electric motors (thousand)	294.0	309.0	215.0	2.4
excavators	1,680.0	2,251.0	1,645.0	4.5
mineral fertilizers (as 100% active substance, thousand tons)	256.0	268.0	214.0	0.6
detergents (thousand tons)	2.6	26.5	40.8	2.9
timber (million m ³)	1.6	2.0	2.0	0.7
particle board (thousand m ³)	23.0	100.0	178.0	2.1
fibre board (million m ³)	3.2	3.8	19.3	3.0
pulp (thousand tons)	118.0	87.0	92.0	1.1
paper (thousand tons)	105.0	93.0	92.0	1.5
skis (thousand pairs)	539.0	885.0	1,031.0	11.6
furniture (million roubles)	...	96.0	174.0	2.2
cement (thousand tons)	964.0	1,213.0	1,129.0	0.8
fishing (thousand tons)	291.0	434.0	402.0	3.6
canned fish (million conventional cans)	104.0	234.0	247.0	7.9
butter (thousand tons)	21.6	30.4	31.3	1.8
cheese (thousand tons)	8.9	12.1	16.9	1.9
cotton fabrics (million m ²)	193.0	178.0	188.0	2.3
footwear (million pairs)	6.9	5.8	7.1	0.9
carpets (million m ²)	0.2	3.3	6.2	5.3
<i>Agriculture</i>				
grain (thousand tons)	595.0	952.0	967.0	0.5
potatoes (thousand tons)	1,414.0	1,146.0	864.0	1.2
meat (slaughter weight, thousand tons)	136.0	196.0	229.0	1.1
milk (thousand tons)	1,025.0	1,170.0	1,277.0	1.2

*Share in the respective output of the USSR.

Source: Eesti statistika aastaraamat 1990. Tallinn, 1991; Narodnoye khozyaystvo SSSR v 1989 g. Statisticheskii yezhegodnik. Moscow, 1990.

Table 6
Structure of civil industry enterprises according to their subordination, %

Year	Total industry	All-Union subordination	All-Union and republican subordination	Republican subordination
1955	100.0	23.6	...	...
1960	100.0	1.2	-	98.8
1965	100.0	28.6	57.5	13.9
1970	100.0	23.5	65.9	10.6
1975	100.0	30.5	57.8	11.7
1980	100.0	27.6	59.5	12.9
1986	100.0	29.2	61.5	9.3
1987	100.0	29.2	62.2	8.6
1988	100.0	29.0	56.5	14.5

Source: Eesti NSV rahvamajandus ... aastal. Statistika aastaraamat. Tallinn (the respective years).

Table 7
Sectoral structure of export and import (at producer's prices, %)

Branch	Export			Import		
	1966	1977	1987	1966	1977	1987
Electric power	4.9	5.8	4.5	0.3	0.0	1.1
Ferrous and non-ferrous metals	0.1	0.2	0.5	7.6	7.7	6.6
Fuels	2.2	2.2	0.8	5.8	5.0	7.5
Chemical products	4.5	6.0	9.8	9.6	8.5	12.5
Machinery and metal products	19.6	20.4	19.0	22.3	24.9	30.4
Forest, timber, pulp and paper products	4.9	6.0	5.2	3.0	3.8	2.6
Building materials (incl. glass and ceramics)	1.8	1.8	1.1	1.0	1.8	1.4
Light industry products	28.8	27.8	28.5	26.0	27.6	18.3
Food industry products	25.3	23.5	26.2	16.5	13.3	10.9
Other manufacturing products	4.5	2.5	3.0	1.6	3.7	3.3
Agricultural products	2.6	3.3	1.1	5.7	3.5	4.9
Products of other branches of material production	0.8	0.5	0.3	0.6	0.2	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: The input-output tables.

Table 8
Basic geographical proportions of export and import, %

Year	Export (total 100 %), of which			Import (total 100 %), of which		
	Latvia and Lithuania	(other parts of) USSR	(other) foreign countries	Latvia and Lithuania	(other parts of) USSR	(other) foreign countries
1930	4.3	4.5	91.2	2.9	9.3	87.8
1931	4.2	4.6	91.2	3.4	11.3	85.3
1932	5.8	0.4	93.8	4.2	5.7	90.1
1933	6.1	1.9	92.0	5.9	4.5	89.6
1934	6.3	2.5	91.2	5.5	4.3	90.2
1935	3.1	2.9	94.0	3.6	3.5	92.9
1936	1.8	3.3	94.9	3.1	5.8	91.1
1937	1.6	4.1	94.3	1.7	5.6	92.7
1938	2.0	4.2	93.8	1.3	4.9	93.8
1956	5.9	91.7	2.4	11.6	83.7	4.7
1961	7.4	85.3	7.3	10.0	78.3	11.7
1966	9.2	79.8	11.0	11.1	76.2	12.7
1972	13.4	78.0	8.6	12.0	68.7	19.3
1977	9.6	83.3	7.1	10.1	71.6	18.3
1982	12.1	82.5	5.4	10.4	70.5	19.1
1987	9.1	83.6	7.3	7.9	73.9	18.2

Source: Eesti Statistika Kuukiri, 1931-1939 (the respective years); materials of the Institute of Economics of the Estonian Academy of Sciences and the Estonian Statistical Office.

Table 9
Basic spatial proportions of economy in 1989, %

Region	Population number	Share of urban population	Industrial output*	Output of milk	Output of meat
North-West Estonia including Tallinn	46.2 30.6	79.7	44.0 37.5	31.5	28.7
North-East Estonia including Kohtla-Järve, Sillamäe and Narva	19.2 11.4	78.5	32.2 27.5	14.2	16.7
South-West Estonia including Pärnu	10.5 3.3	59.3	9.7 5.7	19.2	18.3
South-East Estonia including Tartu	20.9 7.4	57.7	13.3 7.6	29.5	30.6
West-Estonian islands	3.2	40.2	0.8	5.6	5.7
Total	100.0	100.0	100.0	100.0	100.0

* Incomplete calculation. Source: Eesti Vabariigi linnade ja maakondade sotsiaal majanduslik seisund 1985-1989. Statistika kogumik. Tallinn, 1991, p. 38.

Source: Eesti statistika aastaraamat 1990. Tallinn. 1991.

Table 10
Net material product and distribution of population
according to income in the Soviet Union in 1988

Republic	Per capita net material product (roubles)	Distribution of population by income brackets (total 100 %).		
		Per capita income in roubles in a month		
		below 100	100–200	over 200
Estonia	2,590	12.9	53.5	33.6
Latvia	2,630	12.7	59.0	28.3
Lithuania	2,427	14.3	61.7	24.0
Russia	2,623	19.4	58.6	22.0
Ukraine	1,985	24.9	60.9	14.2
Byelorussia	2,578	17.9	62.6	19.5
Moldova	1,789	32.8	56.2	11.0
Georgia	1,891	33.7	49.7	16.6
Armenia	1,757	39.6	50.9	9.5
Azerbaijan	1,565	55.5	38.2	6.3
Kazakhstan	1,683	35.2	51.8	13.0
Usbekistan	1,056	68.6	28.6	2.8
Kirghizia	1,174	60.2	35.2	4.6
Turkmenia	1,358	59.6	35.2	5.2
Tajikistan	952	79.3	19.3	1.4
Average for the USSR	2,210	28.3	54.5	17.2

Source: Eesti statistika aastaraamat 1990. Tallinn, 1991, pp. 67., 270.

Table 11
Ranking of the constituent republics of the Soviet Union

Characteristic	Economically strong			Economically mediocre					Economically weak				
	Ukraine	Latvia Estonia Lithuania	Russian SFR	Geor- gia	Byelo- russia	Kasakh- stan	Moldova	Armenia	Azer- baijan	Uzbe- kistan	Turk- menia	Kirghi- zia	Tadji- kistan
Degree of industrialization	9	10	8	6	8	5	2	3	3	3	2	2	2
Hard currency-earning capacity of industrial goods	6	5	6	3	4	4	2	1	2	2	1	1	1
Agricultural production	10	8	6	7	5	5	9	3	3	3	3	2	1
Hard currency-earning capacity of agricultural products	6	3	3	6	3	4	7	1	2	3	3	3	1
Degree of self-sufficiency in terms of industrial goods	7	6	8	3	5	3	2	1	2	1	1	1	1
Mineral resources	8	0	10	4	1	9	0	4	7	6	5	4	3
Hard currency-earning capacity of raw materials	8	0	10	4	0	9	0	4	8	6	5	4	3
Business mindedness	3	10	2	9	3	1	5	8	2	2	1	1	1
Proximity to Europe	6	10	4	6	7	5	7	6	4	1	1	1	1
Level of education	6	9	5	5	7	3	5	4	4	2	2	2	2
Homogeneity of the population	6	6	5	2	6	2	2	6	6	1	1	1	1
Infrastructure	8	10	5	6	6	5	8	6	4	2	2	1	1
Total score	83	77	72	61	55	55	49	47	47	32	27	24	18

10 scores – good potential, 5 scores – medium potential, 0 score – no potential

Source: Die Sowjetunion im Umbruch. p. 9.

ADMINISTRATIVE REFORM IN ESTONIA

SULEV MÄELTSEMEES

Presently a comprehensive economic and political reform is under way in Estonia; within its framework several subreforms like land, property, financial and administrative reforms can be distinguished. The main idea of the administrative reform is to go over from the former central government (down from the center to village soviets) to a logical symbiosis of local self-government and state administration. In fact, we shall have to restore (considering, of course, the changed conditions) the system of democratic self-government which existed in the Republic of Estonia before 1940 and was a well-developed system for that time.

On the history of administrative division in Estonia

Since the time we have written records about Estonia, i.e. the 13th century, the basic administrative unit here was a parish. A union of parishes was a county. With the establishment of landed estates the parishes lost their meaning as administrative units and became ecclesiastical units. They existed as such up to 1925 when parishes ceased to be territorial units.

In the 17th–18th centuries the area of a landed estate began to be called *vald* (*township* or *municipality* seems to be the nearest terms in English, below *municipality* will be used to designate primary-level administrative units in Estonia). *Vald* is an old word in Estonian which originally meant power (in Finnish *valta* means power, authority, state). When serfdom was abolished (in North Estonia in 1816, in South Estonia in 1819) these administrative units, formed mainly according to estates, became defenders of the interests of peasants. We could say that *vald* came into being with peasant farms (as estates and churches transferred it (part of their tasks), and was liquidated in 1950 together with the latter.

However, the people in the Baltic areas obtained the right to self-government only in 1866 when Alexander II issued a law which put an end to the estate's power over the *vald*. At first when these administrative units were formed their number was over a thousand; in the early 1890s about 400 remained.

During the whole period of the existence of the Republic of Estonia (1918–1940) an administrative reform was under way; one of its last results was reduction of the number of municipalities from 365 to 242 on April 1, 1939. A two-

level self-government consisting of counties and municipalities became rooted. Still, especially at the beginning some people argued that a municipality itself could have direct relations with the center. Other people, however, were sure that only an efficient county could avoid superfluous bureaucracy in the capital. In the congress of self-governments held in 1924 it was noted that there were too many laws pertaining to self-governments and they were contradictory. Opinions were expressed that law on self-government should not be copied from some foreign law (an extremely topical problem also today!), but the already established relationships should be fixed by law. Here are some principles formulated for bills: local self-governments shall have autonomy in determining taxes, municipality and county governments shall be collegial bodies, state authorities shall check only whether the activities of local self-governments are legal, not whether they are expedient. It was considered advisable to unite neighboring municipalities with less than 1,000 inhabitants so that the average population of a municipality would have been 2,000–3,000.

The Basic Act of the Republic of Estonia adopted on July 28, 1937 and valid from 1938 fixed that the organization of local administration and the development of local life would belong to the competence of local self-governments. Besides local self-governments the Basic Act envisaged the functioning of professional self-governments. Approximately at the same time the Act on Counties (April 19, 1938), the Act on Towns (April 19, 1938) and the Act on Municipalities (April 7, 1937) were adopted. The Act on Towns provided the existence of 33 towns in Estonia, among them the capital and towns of the first (population over 50,000), second (10,000–50,000 inhabitants), and third (below 10,000 inhabitants) levels. According to the Act on Counties there were 11 counties in Estonia.

Socialist administrative reform started in Estonia in the 1940s. First, in January 1945, violating the Basic Act of the Estonian SSR and without any coordination with the legislative bodies of the Estonian SSR, the town of Petseri and 7 municipalities in the County of Petseri and 3 east to the Narva River (altogether 1986 km² and 39,000 inhabitants, i.e. 4% of the territory and 3% of the population of Estonia) were joined to the Russian SFSR. In August–September 1945 the municipalities were divided into territories of village soviets, at first also municipalities remained. The decree of the Presidium of the Supreme Soviet of the Estonian SSR abolished 13 counties and 233 municipalities. Instead, 39 rural districts (raions) to which 28 towns were subordinated, 21 urban settlements, and 636 territories of village soviets were formed; five territories of village soviets were subordinated to the town of Narva. The tasks performed by municipalities were at first transferred to village soviets, later they went step-by-step to raions. In 1952–53 there were three oblasts (provinces) in Estonia (Tallinn, Tartu, and Pärnu). As a result of the amalgamation of small territories of village soviets the total number of them was 320 in 1954. In 1957 the uniting of small raions began; since 1964 no changes have occurred in the territories of 15 raions. The number of towns of republican subordination has been six since 1957, but the number of the territories of village soviets changed also in the 1970s–1980s. So, in 1971 the number of village soviets was 235, in 1988 their

number was the smallest – 189, since then a slow increase has occurred and in 1990 there were 192 territories of village soviets in the Republic of Estonia.

The decree of the Presidium of the Supreme Soviet of the Estonian SSR on creating an administrative system based on self-government adopted on December 8, 1989 provided the formation of counties instead of the former raions (altogether 15) since January 1, 1990, and renamed the towns of republican subordination as simply republican towns.

A comparison of the present administrative division of Estonia and some other countries

The average area of a county in Estonia is 2,978 km² with the area of the biggest county (Pärnumaa – 4,771 km²) being 4.7 times as big as that of the smallest (Hiiumaa – 1,023 km²). The population number of the biggest county (Harjumaa – 106,413 inhabitants) is 9.6 times as big as that of the smallest (Hiiumaa – 11,036 inhabitants) (*Tables 1 and 2*). Urbanization level is relatively low in the counties bordering on towns of Republican subordination. As a matter of fact, they should be treated together and then the urbanization level of Harjumaa would be 87.1%, that of East-Virumaa 89.2%, Pärnumaa 66.6%, and Tartumaa 74.9%.

The size of the primary-level administrative unit is causing much debate. Presently the average area of the territory of village soviet is 226 km² with the largest territories of village soviets being over 500 km² (Märjamaa 563 km², Kuusalu 520 km²) and the smallest below 50 km² (the two smallest are located on islands: Piirissaare 8 km² and Ruhnu 11 km²; on the mainland two smallest territories of village soviets are both 44 km²). For comparison's sake note that among the 106 former parishes four had an area smaller than 100 km² (Ruhnu 11 km², Lihula 80 km², Paide 80 km², and Vormsi 93 km²), whereas the largest parishes were over 1,000 km² – Iisaku 1375 km² and Saarde 1,049 km². The remaining parishes fell into the following groups: 101–200 km² – 8 parishes; 201–300 km² – 28 parishes; 301–400 km² – 19 parishes; 401–500 km² – 18 parishes; 501–600 km² – 14 parishes; 601–700 km² – 9 parishes; 701–800 km² – 3 parishes, and 801–900 km² – 1 parish.

For comparison it must be said that in Sweden the average area of a county (there are altogether 24 counties) is 17,122 km² which is 5.7 times more than that of an average Estonian county. The average area of a primary-level administrative unit in Sweden (there are a total of 284 communes) is 1,447 km² (including urban communes); this means that an average Swedish commune is 6.4 times larger than an average Estonian village soviet. The largest Swedish commune (Kiruna with an area of 19,447 km²) is over four times bigger than the largest Estonian county.

In Finland the average area of a province (altogether 12 provinces) is 25,385 km²; it is 8.5 times larger than the average Estonian county. The average area of the primary-level administrative units (altogether 461 municipalities), including towns, is 661 km² in Finland; so it is 2.9 times as big as the average Estonian territory of

village soviet. The largest Finnish municipality (Inari with the area of 15,173 km²) is over three times bigger than the largest Estonian county.

Table 1
Administrative division of the Republic of Estonia in 1989

Republican town, county	Area, km ²	Number of units			Average area of village soviet, km ²	Number of rural places, Jan.1, 1989
		towns	boroughs	village soviets		
<i>Republican town</i>						
1. Tallinn	183	2	1	–	–	–
2. Kohtla-Järve	64	2	2	–	–	–
3. Narva	101	1	1	–	–	–
4. Pärnu	35	2	–	–	–	–
5. Sillamäe	10	1	–	–	–	–
6. Tartu	39	1	–	–	–	–
<i>County</i>						
1. Harju	4,147	2	3	16	259	344
2. Hiiumaa	1,023	1	–	4	256	90
3. East-Viru	3,194	–	–	15	213	185
4. Jogeve	2,604	3	–	10	260	217
5. Järva	2,624	2	–	14	187	165
6. Lääne	2,417	1	1	11	220	160
7. West-Viru	3,451	3	2	13	265	315
8. Põlva	2,164	2	13	166	225	–
9. Pärnu	4,771	1	4	17	281	242
10. Rapla	2,939	4	9	327	201	–
11. Saare	2,917	1	–	13	224	265
12. Tartu	3,071	2	–	19	162	326
13. Valga	2,044	3	–	11	186	154
14. Viljandi	3,578	3	3	14	256	262
15. Voru	2,305	2	–	12	192	291
Total	45,100	33	23	191	226	3,442

Table 2
Some demographic indicators in the administrative units of the Republic of Estonia
in 1989

Republican town, county	Population number, Jan.12, 1989	Number of urban population	Urbanization level	Number of rural population	Population density, inhabitants per km ²	Average popu- lation number of village soviets
<i>Republican town</i>						
1. Tallinn	502,842	502,842	100.0	–	2,748	–
2. Kohtla-Järve	91,368	91,368	100.0	–	1,428	–
3. Narva	86,047	86,047	100.0	–	852	–
4. Pärnu	58,338	58,338	100.0	–	1,667	–
5. Sillamäe	20,299	20,299	100.0	–	2,030	–
6. Tartu	113,995	113,995	100.0	–	2,923	–
<i>County</i>						
1. Harju	106,413	27,722	26.1	78,691	26	4,918
2. Hiiumaa	11,036	4,131	37.4	6,905	11	1,726
3. East-Viru	23,932	–	0.0	23,932	7	1,595
4. Jogeva	42,606	14,419	33.8	28,187	16	2,819
5. Järva	43,619	17,810	40.8	25,809	17	1,844
6. Lääne	33,788	17,037	50.4	16,751	14	1,523
7. West-Viru	79,520	39,176	49.3	40,344	23	3,103
8. Polva	35,969	10,455	29.1	25,514	17	1,963
9. Pärnu	42,603	8,854	20.8	33,749	9	1,985
10. Rapla	39,421	15,026	38.1	24,395	13	2,711
11. Saare	39,576	16,356	41.3	23,220	14	1,786
12. Tartu	48,433	7,715	15.9	40,718	16	2,143
13. Valga	42,453	24,214	57.0	18,239	21	1,658
14. Viljandi	65,827	31,940	48.5	33,887	18	2,421
15. Voru	45,197	19,126	42.3	26,071	20	2,173
Total	1,573,282	1,126,870	71.6	446,412	35	2,337

Population number is maybe an even more important indicator of the size of an administrative unit than area. Among Estonian primary-level administrative units three village soviets located on islands (Ruhnu, Piirissaare and Vormsi) and one on the mainland (Alajoe) have less than 500 inhabitants. Vasalemma has the biggest population - nearly 8,500. Half (52%) of the Estonian village soviets have less than 2,000 inhabitants; 29.3% of the rural population lives in such village soviets (Table 3). In Finland only 5.2% of the population of rural municipalities lives in rural municipalities with less than 2000 inhabitants, and such places account for 21.8% of the total number of rural municipalities.

The average population number of the Estonian county is 46,700 and that of the average village soviet is 2,337.

In Sweden the average size of a county is 350,600 inhabitants, and that of a commune (together with urban communes) is 29,600 inhabitants. As to the population number, quarter Stockholm with 1,606,157 inhabitants is the biggest secondary-level administrative unit. The smallest Swedish secondary-level administrative unit Gotland with 56,269 inhabitants has bigger population number than 12 Estonian counties and 1.2 times more inhabitants than the average Estonian county. The biggest municipality as to population number is Stockholm (666,810 inhabitants). The smallest Swedish municipality Bjurholm with its 2,989 inhabitants is bigger than 77% of the Estonian territories of village soviets.

Table 3
Distribution of Estonian village soviets and Finnish rural municipalities according to population number

Population	Estonia (1989)				Finland (1987)			
	village soviets		population number		rural municipalities		population number	
	number	%	inhabitants	%	number	%	inhabitants	%
up to 500	4	2.1	848	.2	8	2.2	2477	.1
501 – 1,000	20	10.5	17,313	3.9	13	3.5	10,013	.5
1,001 – 1,500	38	20.0	49,092	11.0	30	8.2	38,526	2.0
1,501 – 2,000	37	19.4	63,249	14.2	29	7.9	51,418	2.6
2,001 – 2,500	35	18.3	78,573	17.6	35	9.5	80,315	4.1
2,501 – 3,000	15	7.9	41,925	9.4	27	7.4	75,598	3.8
3,001 – 3,500	10	5.2	32,601	7.3	33	9.0	199,871	10.1
3,501 – 4,000	6	3.1	21,383	4.8	18	4.9	67,355	3.4
4,001 – 4,500	4	2.1	16,717	3.7	23	6.3	97,204	4.9
4,501 – 5,000	8	4.2	38,469	8.6	14	3.8	66,446	3.4
5,001 – 5,500	5	2.6	26,243	5.9	15	4.1	79,867	4.0
5,501 – 6,000	4	2.1	23,623	5.3	23	6.3	132,167	6.7
6,001 – 6,500	1	.5	6,410	1.4	14	3.8	87,104	4.4
6,501 – 7,000	1	.5	6,877	1.5	7	1.9	46,695	2.4
7,001 – 7,500	1	.5	7,086	1.6	6	1.6	43,389	2.2
7,501 – 8,000	1	.5	7,565	1.7	10	2.7	77,149	3.9
8,001 – 8,500	1	.5	8,438	1.9	5	1.4	41,308	2.1
8,501 – 9,000	–	–	–	–	6	1.6	52,297	2.6
9,001 – 9,500	–	–	–	–	8	2.2	75,402	3.8
9,501 – 10,000	–	–	–	–	27	7.4	329,792	16.7
10,001 – 15,000	–	–	–	–	9	2.4	156,831	7.9
15,001 – 20,000	–	–	–	–	7	1.9	165,005	8.4
above 20,001	–	–	–	–	–	–	–	–
Total	191	100.0	446,412	100.0	367	100.0	1,976,229	100.0

In Finland the average population number of a county is 411,550, and that of a rural municipality 5,385. An average Finnish county has 8.8 times more inhabitants than an average Estonian county; if we take republican towns also into consideration, then an average Finnish county is 5.5 times bigger than an average Estonian secondary-level self-government unit (791,900 inhabitants). An average Finnish rural municipality has 2.3 times more inhabitants than an average Estonian village soviet.

Thus we can conclude that presently Estonian primary-level self-government units are considerable smaller than those in e.g. Finland and Sweden both as to their area and population number. Nevertheless in a number of areas people wish to form instead of the present territories of village soviets 2-3 primary-level self-government units as decision-making has been very far. No doubt, small self-government units enable to bring decision-making in issues concerning local life nearer to each person, but the economic base would in that case obviously be weak.

The experience of European countries shows that to strengthen the economic base considerable concentration of administrative units has taken place. In the FRG the number of primary-level administrative units decreased nearly three times in the course of the administrative reform of the 1970s. In Sweden the number of communes decreased even 8 times in the years 1951-1988.

From the standpoint of national government the following regularity can be observed at least in Europe: a small state functions generally more efficiently, but in case of local self-government the most rational balance is to be found between bringing decision-making nearer to people and the economic (above all financial) potential of the administrative unit.

On the essence of the administrative reform

The foundations of the administrative reform under way presently were formulated in the Conception of the Economic Autonomy of the Estonian SSR approved by the session of the ESSR Supreme Soviet on May 18, 1989 and the Act on the Foundations of the Economic Autonomy of the Estonian SSR adopted at the same session. The Conception stipulates that the previous central government shall be substituted by local self-government. The territorial system of administration in Estonia shall consist of two levels, the primary level shall consist of county towns, boroughs and municipalities, and republican towns and counties shall form the secondary level.

Actually the administrative reform was started with the Act on the Foundations of Local Self-Government in the Estonian SSR adopted on November 10, 1989, and the decree of the Presidium of the Supreme Soviet of the Estonian SSR on creating an administrative system based on self-government in the Estonian SSR adopted on December 8, 1989. On December 10, 1989 new councils of local self-government were elected for a five-year term; their main task will be to carry out the administrative reform.

The administrative reform will first of all mean the creation of a self-governing administrative unit of primary level on the territory; the reason is that though two-level self-government is envisaged, in the future the secondary level should involve state government (regional policy etc.), and self-government should function only on the primary level. This is why the Act on the Fundamentals of Local Self-Government tries to fix the exclusive competence of the council of primary-level local self-government unit rather exactly.

The municipality, borough and town councils shall make decisions concerning the following problems of its exclusive competence:

1) In accordance with the laws on the budgets of the Republic of Estonia it shall approve the independent budget of the local self-government unit as well as the reports on fulfilling the budget and the use of additional revenues not envisaged in the budget. The draft budget, the budget itself as well as the report on its fulfillment shall be made public;

2) In accordance with the laws of the Republic of Estonia the council shall establish local taxes and receipts from the budget, make decisions about loans and imposition of various commitments;

3) The council shall make decisions about making allowances to physical and legal persons concerning the taxes, commitments, and grants it has established;

4) It shall fix the legal regime of the property in its municipal ownership and check the using and disposing of this property, and make decisions about changing the form of ownership of this property or its cooperation with other forms of ownership;

5) The council shall plan the main development directions of the respective administrative unit and approve independent development plans;

6) It shall issue permits for establishing enterprises and enter into contracts for economic and construction activities on its administrative territory in the order established by the laws of the Republic of Estonia;

7) It shall check the fulfillment of the contracts the enterprises, institutions and organizations located on the respective administrative territory have made with the council, control whether their activities agree with the environmental acts, sanitary and health care regulations and other legislative acts of the Republic of Estonia, and how land and other natural resources are used;

8) The council shall stop the operation of an enterprise, institution or organization who damages the interests of the people of the respective territory as indicated in paragraph 7, or violates terms of the contract it has entered into; in case of need the council shall apply other sanctions provided by the laws of the Republic of Estonia;

9) Proceeding from the people's interests and sanitary requirements, the council shall establish the general order of providing services to the population;

10) The council shall make decisions concerning land tenure and exploitation of natural resources on its administrative territory in the order and extent fixed by the legislation of the Republic of Estonia;

11) The council shall direct territorial planning of its territory, decide the location of new projects and the administrative center; it shall make applications or give its opinion in matters concerning reorganization of the respective administrative unit, altering its boundaries, status or name, and make decisions in issues concerning agreements on property relationships arising in these matters;

12) It shall investigate people's applications to settle on its administrative territory and give its standpoint on issuing residence permits to the authority concerned in accordance with the legislation of the Republic of Estonia;

13) The council shall elect and dismiss the mayor or the headman of the municipality or borough and approve the membership of the municipality, town or borough self-government and the wages fund of its office;

14) It shall hear the reports of the mayor or the headman of the municipality or borough and the local governments on fulfilling the council's decisions;

15) It shall elect the chairman of the auditing commission and his deputy, heads of other commissions, and approve the membership and heads of the other commissions, and hear their reports;

16) It shall approve the statute of the respective administrative unit, and make alterations in it;

17) It shall make proposals about approving the coat of arms and flag of the respective self-government unit and approve other symbols in accordance with the laws of the Republic of Estonia;

18) The council shall have other authorities whose extent is fixed by the laws on the towns and municipalities.

On the initiative of the respective administrative unit's population the council may form self-governing subunits on its territory. According to the laws of the Republic of Estonia the local self-government units have the right to form associations which can realize their interests within the country and on the international level. Before the annexation of Estonia there existed two associations – the Union of Estonian Rural Self-Governments and the Union of Estonian Towns. Their activities were illegally cut short on August 17, 1940 by the Government of the Estonian SSR; on March 1, 1990 this decision was declared null and void. In May 1990 the actual activities of the Union of Estonian Towns were also restored. In addition, a new organization - the Estonian Union for the Foundation of Municipalities uniting primary-level self-government units has been formed. Also, some regional unions of self-governments have cropped up; in our opinion their prospects in handling common socio-economic problems are very good.

On June 22, 1990, in order to accelerate the course of the administrative reform and to further the establishment of such primary-level local self-government units that have an independent budget, municipal property, enjoy the rights to impose local taxes, regulate enterprising, make decisions about land tenure and the use of other natural resources and on guaranteeing law and order, the Government of the Republic of Estonia passed the Decree on Establishing a Primary-Level Self-Governing Administrative System. Among other things this Decree gives the town, municipality and borough councils having an independent budget the right to impose

on its administrative territory local taxes in addition to those envisaged in the republican law; the upper limit of such taxes is fixed by the Ministry of Financial Affairs of the Republic of Estonia. The decree gives concrete tasks to scholars and departments for solving problems cropping up in connection with the formation of primary-level self-government units in the fields of subsidizing local budgets, management and exploitation of natural resources etc. proceeding from the principles underlying property (above all privatization), budget and the Republic's regional policy. We have in view to arrange a republican competition to get effective programs of socio-economic development of primary-level self-government units which would accelerate regional development. The competition should be totally (two first prizes) or partially (six best programs) financed from the next year's state budget.

On the tactics of the administrative reform

The functioning of a primary-level self-government unit differs fundamentally from the present government of the village soviet, borough or town. In the course of time centralization has deprived the primary level of all self-action, self-responsibility and self-dependent decision-making. Problems arise also in connection with these socio-economic matters presently landed by local farms or enterprises (maintenance of kindergartens, construction of service establishments etc.).

Realizing that it would be impossible for all the presently existing primary-level units fulfilling functions of state government to turn simultaneously into self-government units we worked out the tactics of the administrative reform. Its principles were fixed by the law in creating a self-governing administrative system adopted by the Presidium of the Supreme Soviet of the Estonian SSR. According to this law a self-government unit must have the program of its socio-economic development and the statute worked out by the respective council to be reorganized as such. These documents are to be inspected by the expert commission of the administrative reform at the Supreme Soviet of the Republic of Estonia. The program of socio-economic development and the status are to be submitted to the expert commission; on the basis of its opinion the self-governing status is confirmed by the Presidium of the Supreme Soviet of the Republic of Estonia. It is interesting to note that the Republic of Latvia has chosen a different way. The same documents are required to get a self-governing status, but in Latvia the materials of the primary level are inspected and approved by the expert commission of the administrative reform which is formed in every county; documents are to be submitted to the expert commission at the Presidium of the Supreme Soviet only in order to get the status of the second-level self-government. In Estonia it is not envisaged to grant the status of second-level self-government units, and as already mentioned above, the second level will involve only state government in the future.

The compilation of the program of the socio-economic development of primary self-government units has two main aims:

1) A local body applying for the self-governing status must have a good knowledge of the previous development of the administrative unit, its present situation and development prospects, and be able to plan development alternatives proceeding from this knowledge. An administrative unit needs a development program which is a territorially coordinated plan of activities fixing possible development trends for about five years;

2) The program of socio-economic development must enable the expert commission to estimate the readiness of the respective unit for self-governing status, bearing at the same time in mind that this must not damage the interests of the neighboring areas and ultimately those of the whole republic (i.e. ensuring that regional justice is guaranteed).

The expert commission is of the opinion that it is above all the primary-level administrative unit itself who needs a development program that includes an inventory of the resources and an analysis of the development scenarios for the near future. The development program must be discussed and approved by the local council and the population of the administrative unit must be informed about its contents.

The expert commission has worked out an advisable structure of the development program. The program should first present the most general local prerequisites, aims, and the expected results. Next the previous development, boundaries, inner territorial structure, and location with respect to neighboring administrative units should be treated. Then a brief historical review of the development of the administrative unit should be given as the restoration of the pre-war boundaries is on the agenda presently. The following sections should discuss the present boundaries, their reasonableness, and if necessary, give reasons for alterations; the location in the county and with respect to the neighboring administrative units; possible forms and fields of cooperation with neighbors; the organizational structure of the self-governing administrative unit. The next big section should give a characterization of the demographic situation and settlement system. It should present the population number, its age-sex composition, employment, their dynamics and forecasts; people's labor relationships with the neighboring areas, and the settlement system (settlements belonging to the administrative units, their population number, distance to the center, local service centers, need for and possibilities of the rehabilitation of villages). An important place in the program of socio-economic development should belong to the analysis of the local resources potential as the prerequisite of growth and object of taxation; in this context the land fund, the forest fund, water resources, other natural resources, recreational resources (water bodies, forests etc.), prerequisites resulting from the geographical location (access to the capital, main roads and railway terminals etc.). The economic analysis should treat the unit's economic structure and the necessary structural shifts; the organizational structure of production (above all the possibilities for shops, branches etc. to become independent); prerequisites for the development of new enterprises; development potential of family-run farms; the condition of transport and communications in administrative units (access to the

availability of telephones and bus routes in villages). A separate section should be devoted to the analysis of financial resources (the structure of budget revenues, principles of local taxation; special-purpose funds and charity in the primary unit). The present situation and bottlenecks of the social sphere are to be described by branches and areas and the prospects and priorities of the development of the social sphere are to be described. The socio-economic development program should yield as one of its outputs an estimate of the comprehensive use of the territory, its prospects, and functional zonation.

Another important document to be submitted to the expert commission is the statute of the municipality, borough, or town. This is the document that regulates the functioning of the municipality, borough, or town as a self-governing legal person and that of its governing bodies to the extent fixed by the laws of the Republic of Estonia and other legislative acts. The aim of the statute is to regulate the functioning of the given administrative unit in those spheres where the national legislation provides freedom of choice or where the existing legal regulation is still deficit. The statute should include the following most important sections: the authorities of the administrative unit, their formation, functions, and work routine; the competence of these authorities; the relations of the administrative unit with other self-governing units, county government and foreign countries; the symbols of the self-governing unit etc.

At present the fixing of the functions of local governments and national government has only started, the competence and cooperation of the primary and secondary self-governments has not yet been exactly defined either. At so-to-say aday's notice it is not possible to go over from unprecedented centralization (where the cake receipts and prices of one sixth of the globe are fixed in one center) to regional and local government. It is important to note here that often an extreme form of self-government is meant according to which local governments would become „kingdoms within kingdoms” (requirements that local governments should have sovereign, one-channel financial relationship with the national budget etc.) Thereby we would apparently again achieve an unprecedented situation in the modern world, though tending to the other extreme. By the way, an analogy can be found in enterprising where it is attempted to go over from „perfect” demand economy to completely free market economy, i.e. to a situation not known by developed countries today.

The economic reform will be a long process, and we would be content if in about five years all the present territories of village soviets, boroughs and towns had been turned into primary-level self-government units.

LOCAL POWER AND LOCAL GOVERNMENTS

ILONA PÁL KOVÁCS

Theoretical points of departure

The concept of local power was unknown in Hungary during the past decades. The dominant Leninian-Stalinian principle of the unity of power left its stamp on the construction of the state and political mechanism. On the basis of the so-called democratic centralism, which draws on the principle of power unity, all the classical (legislative–executive–judicial) branches of power and the regional organs of administration were subordinated to the power centre, the party. This formula was raised to the status of constitutionality, as the leading power of the party was laid down in the constitution.

The obvious contradiction between the principle of national sovereignty and the simultaneous declaration of the party's leading role seemed to bother at best only the „over-particular” political lawyer but not the actual power relations for a long time. The theory of the unity of power was given up not so much as a result of the meticulousness of science but as a consequence of the socio-economic changes which showed the division of social interests to a greater extent as well as the untenableness of the one-centred hegemonistic exerting of power.

The territorial breaking down of power started at the time of the enactment of the Third Council Act, in 1971, for the self-governing character of the councils was declared in it. The positive intention of decentralization, however, was doomed to failure in the final account by the inner logic of the construction of the Establishment. That is to say, the system of councils is consistent with a power structure of centralizing character. All the powers of the councils derive from the legislation, and the range of the council matters is not protected by special constitutional safeguards. The central governability based on the organizational subordination of the councils continued to survive from first to last. After all, the councils were formed to execute the central decisions, as worded very aptly by *János Beér*, in 1951: „The councils are not organs of the local power, but rather local organs of the Power.”

The centralized character of the power in the political sphere was safeguarded by the strictly centralized internal construction of the party and also by the impossi-

bility of the establishment of any organs which might have claimed to influence the power.

From what has been said above it follows that the territorial division of power has two basic criteria: firstly, the recognition of the division between the branches of power; secondly, the institutional appearance of the pluralist power relations.

I am trying to prove in my lecture that the creation of the basic constitutional and structural conditions in itself does not automatically ensure the autonomy and democracy of local politicizing.

Scenes and institutions of local politics

In Hungary political pluralism was granted constitutional safeguards in the process of the change of regime, and after the elections the machinery of parliamentary democracy was launched. With the acceptance of the Act on Local Governments the so-called fourth dimension of power, the local power was institutionalized. I am starting from the fact that the Hungarian legislative regulation ensures in principle the freedom of local politicizing and thereby the conceptual elements of the local power are easy to analyse and interpret. In 1983 *Csaba Gombár*, a leading Hungarian political scientist, already raised the question whether local power existed in Hungary. Although the answer given was an unambiguous „no”, as the institutional conditions of the appearance and assertion of the local interests opposed to the central power were lacking, the raising of this question imparted a new impulse to the intensification of research activities in the Hungarian sociology and political science.

The investigations of the so-called local society aimed, on the one hand, at analysing the features drawing on the locality of the villages and towns and at comparing the macro- and micro-processes of social policy, on the other. In the course of the research work and professional debates the conceptual system of local politicizing became clear. It became obvious that the macro-processes, namely macro-politics cannot be constructed by the mechanical summing up of the micro-phenomena, and the world of local politics is a relatively autonomous, self-determining complex of phenomena.

The difference between local and national politics can be inferred mainly in a speculative way. The two political spheres have to operate different dimensions of the state administration along with different interest relations and systems of objectives, within different organizational frameworks, by means of different operative methods.

The classical medium of the functioning of parliamentary democracy is the *multi-party system*. The parties – as organizational types – were set up above all to make parliamentary democracy work, on the one hand, by participating in the activities of the parliament and government through representatives in proportion to their election polls, on the other hand, by influencing the behaviour of the constituents during the elections. Now at the time of the elections and the sprawling of

the parties we are not talking – of course – about the iron law of oligarchization characterizing the parties, albeit this phenomenon is closely related to the systems of objectives and the organization of the parties. As compared to this regularity, in local politics state administration of the *self-governing type* can ensure the autonomy of local politics. The functioning of the local governments also has its internal rules and regularities following from the principle of organization. The settlements, the constitutional local governments are linked to the central state level through normative governing and legal supervision. The range of activities of the local government is inevitably greater than that of the Soviet-type council. At the same time the relative independence from the state is dearly bought because the local governments are compelled to function under the greater influence and stricter supervision of the local society and local politics. This follows from the theoretical assumption that self-governing is the collective-communal right of the constituents of the settlement which they can exercise partly directly, but mainly through the representative body of the local government. What makes different the systems of objectives of the macro- and local politics? The *government politics* – in Hungary particularly now – is *guided* to a great extent by *ideologically determined, macroscopic model objectives*, it operates only in terms of a rough, basic division of the society. Its scope of authority is formed by the powers of both the domestic and foreign policies.

The *system of objectives* of „small” local politics consists in the *operation* of a settlement, a *place of residence*, possibly through the harmonizing of the wants of all the inhabitants living there. Mediation of the social division of the local governments is essentially more direct and variegated than that of „great politics”. It *influences* both the system of objectives and the political division only *slightly by ideology in its abstract form*.

The present political division dominated by the parties will be blurred in the future, so the *interests of the place of residence are concentrated on quite different factors*. Therefore the local division of interests does not necessarily require the same political organizational structure as the one formed nationally to operate the government and the parliament. This other kind of division is also characterized by the fact that *it does not inevitably appear in the form of party-like organizations* either, it can materialize in manifold, flexible and direct forms.

Namely, in a decentralized state-political mechanism local politics is not an extension, an impression of great politics but it draws on the locality under the general national-political conditions.

After the general comparison let us now take a look at the *agents of local politics*. It is probably shocking that I do not start with the parties. But in my opinion the modern local governments of the settlements are politicizing organizations themselves, too, and there are a lot of settlement types where the corporate body of the local government represents an important if not the only pole of politicizing. That is to say, in the developed democracies the functioning of the local governments is characterized by both the appreciation of the direct forms and professionalization. The two trends do not neutralize one another because they are both equal

to the tasks. The future local governments have to be built out in such a way that there will be several organizational-organizing forms available for remaining directly in touch with the local society, or even for socializing certain tasks of the local governments. Naturally the parties will be important agents in the local politics. But referring to what has been said about the parties, it might be prognostized that the role of the local organizations of the parties will be modified in a well functioning pluralist parliamentary self-governing system. Local political research findings have shown that *the situation of the local parties is necessarily ambivalent*. On the one hand, due to the character and function of the organization it will be linked relatively closely to the upper administrative levels of the party. This linkage is being formed in the course of adjustment to the macro-political interest. At the same time – in the larger settlements in particular – it is the local parties who operate the board of representatives of the local government, thus they have to be integrated into the local political power relations and system of objectives. These so-called Janus-faced parties are not able to meet the double challenge continuously and simultaneously. In the period of general centralization their role is shifted to mediating the party politics, in the period of decentralization to mediating the local needs, as a rule.

The catalysts of local politicization are those social organizations which are practically absent from the Hungarian political palette. Both the local governments and the local parties require intermediary organizational forms, organizations which link the decisions of settlement policy with the local civilian society. From the aspect of the future development of the civilian society and political socialization the different associations, cultural communities and organizations safeguarding workers' interests will play a key role. *A system of local governments operated exclusively by parties is the hotbed of élitism and it has nothing to do with the so-called „basic democracy”.*

The range of the agents of local politics is not exhausted yet. Local public opinion, sentiments and local publicity, *the whole of the local society* may be particularly important because it will also be directly invested with power licences through referenda and it will determine the local political power relations in the final account by means of taking decisions during the elections. To exclude the possibility of the constituent or citizen to make local political decisions merely under the impact of manipulation, the local communities ensuring direct participation and local publicity covering a settlement at least are required.

In this brief, roughly outlined lecture it is impossible to dwell on such informal agents of the local politics as the local economy and institutions with their leaders, I merely want to point out that in this way *local politics has a pluralist character*, but not quite in the ordinary sense.

On the basis of what interests is the local politics divided then? There are *general settlement interests* the assertion of which is unanimously supported by the local society. As often pointed out in the technical literature: „external” threat always strengthens the cohesiveness of the local society. Such general interestedness is attached to the preservation of settlement autonomy, a healthy environment, favour-

able transport conditions etc. The local society is broken up into *interest groups* when a deliberating decision has to be taken in the course of meeting needs of a higher level. At this point division in the cultural, health service, demographic, or maybe ethnical, employment etc. situation of the local society may come into prominence. To pick out just an example from the cultural sphere: so long as the public library or the running of a primary school is of general interest, opinions may differ in respect of the old people's day-time home or the *chréche*.

The local interests are divided also *between the parts of the settlement* because every street or even district is willing to give priorities to its own problems. But we could go on enumerating examples of the division, since a managing organ or a parish community may claim needs other than the intellectuals, commuting workers etc. These general and differentiated interests require different organizational and representative forms. The external representation and general governing is the task of the local government, while the representation, even assertion of the interests is not necessarily a self-governmental function. It would be a great *mistake to build out omnipotent local governments* as a reminiscence of the „all power to the Soviets” slogan. In the lives of the settlements there are such independent agents, factors which are only partially linked to the local self-government being not so much subordinated units as partners. This range includes not only the economy but also a good part of the institutional supply, the autonomy of which may be restricted only by the general, common interests of the settlement policy, if the power relations take such a turn. We should not think that local politics is free of conflicts, although it is characterized indeed by an endeavour towards harmony.

The reality of the autonomy and democratism of local politicizing in Hungary

In the eighties I also conducted several investigations in the field of the issues of local power. Here and now I am going to summarize the experience I had, naturally in brief outlines:

1) Within the framework of the one-party system and the system of councils the local interests were mediated to the upper decision-making levels of the power only informally;

2) The local decisions of executive character were taken by a narrow power élite and sanctioned by the boards. Within the system of councils the actual power was within the hands of the officials and office apparatus;

3) Among the power elements of the settlement policy an important role was played by the economy, the local economic management in spite of the lack of constitutional-political authorization. In respect of the opportunity of self-assertion the productive-economic interests have always had privileges in comparison with the local interests;

4) Because of the lack of the institutions with pluralist division and local publicity the local society having scarce information was indifferent, even hostile to the local politics. The distance between the local society and the local élite necessarily

resulted in such a crisis of legitimation at the local level which can be relieved only by the oncoming elections.

It is questionable whether the newly elected local government boards, the forming local parties, social organizations will be able to take democratic, efficient and rational decisions.

In my opinion numerous important conditions are still lacking for getting the optimum out of local politicizing. The most dangerous obstacle is that the Hungarian *economic and political situation does not encourage effective decentralization*, furthermore, there are a great many arguments in support of the necessity of centralization. The management of the crisis, the uncertain political power relations, the theoretical and practical difficulties of the change of regime are all factors enhancing the propensity of the centre to intervene, whether the model has a self-governing character or not. A serious barrier to harmonic local politicizing in Hungary is the *great degree of the differentiation of regional development*. The opportunities of the future local governments for development and solving problems of the local services, supply and employment are rather unequal. On this account the equalizing funds of the state, its development activity, which inevitably restricts the autonomy of the local governments, will be required on the long term. None the less alarming is the *retardation of the local societies*, the lack of their political culture, the domination of passions accumulated as a result of discontent.

Unfortunately, there is also a *lack of expertise* which might be able to make a new-type organizational and functional model of self-government with a new approach work. Although the national public administration of the system of councils was not of low professional standards, there was no room for the enterprising manager type in the framework of the budgetary organization and bureaucratic approach. All this suggests that it is a political crime or mistake to expect immediate, spectacular success of the introduction of the model of self-government, let alone promise it.

Administration of the self-governing type and democracy are, as a matter of fact, in crisis all over the world. The scope of the economy and society has transgressed the boundaries of the settlements and small spaces, the interventions of the state has made the autonomy of the local governments illusory, the laws are characterized by indifference. All these tendencies should not lead us to give up the ideal of the democracy of the local governments and localities. We have to understand that the local governments of the settlements and regions are looking for new forms suiting the new contents instead of the classical model of their functioning. The same applies to the wider context of the local politics as well. In Western Europe the new-type political organizations involve a big challenge for such traditional institutions of local politics as representative work, party politicizing. The so-called „basic democracy”, the civilian initiatives, citizens' forums, casual groupings in support of single aims are much more sensitive to the topical issues of local public life than the traditional forms. In the big cities there is an increasing need for the peculiar interest of the city districts to take shape in separate organizations. The self-governing organizations are experimenting with other new forms in order to

improve the maintaining of direct relations. The activities of the local governments are interrelated with those of a great variety of organizations and groups in the settlements, which requires the development of coordination.

Town administration of a bureaucratic, official approach is unable to cope with the new-type development and planning tasks, therefore the management approach is becoming a model.

The small settlements also fell victims to the integrational endeavours of the seventies in large numbers. By now it has turned out that the hopes attached to the competency of administration and the concentration of development are illusions, or rather products of such a technocratic logic which does not take into account the enormous role of human identity and local patriotism. The slowly recovering regionalism will again appreciate attachment to the locality and its spread will ensure its becoming human and efficient as well. Thus the power-political model is being modified under contrary effects, it is becoming more and more variegated with regard to both methods and organization of functioning. A – probably very long – process will be launched by the enactment of the Act on Self-Governments and also by the elections of the local governments. In this process the optimal conditions of the local decisions will be created. Such an optimal-ideal local politics should – in my opinion – meet the criteria below:

1) Such a local *election mechanism* is required which is able to ensure the representation of all the important place- (locality) related interest groups. In so far as important interest groups are compelled to remain outside the Town Hall, the solution of the conflicts will also by-pass, exceed the competence of the local body of representatives. This phenomenon will condemn the work of the representatives to formalism and increase the role of uncontrollable informalism in the local power decisions;

2) The bodies, boards and offices of the *local governments* have to take such an *organizational form* which follows the peculiarities of the locality in its *division*. Only an organization fitting the local society is able to handle flexibly the information input and also respond to it in an adequate way. Every effort trying to uniformize nationally the organization of the local governments in the interest of lucidity is mistaken;

3) The local government and its organization should be determined, influenced and supervised by an adequately divided, variegated *political-social mechanism of organization*. In the large settlements mainly the parties, other formal organizations, associations for the protection of common interests and various societies form the context of local politics. In the small settlements amorphous groups, communities and personal „face-to-face“ relationships will be typical and naturally the style of politicizing will be modified according to this;

4) Depending on the size of the settlement the institutions of *local publicity* have to be built out in different forms. The personal-direct forms of information through the local media, the press, the radio and television ensure not only legitimation for the power élite but also provide very important information and impulses from the local society which continuously maintain problem-sensitiveness;

5) The most harmonically constructed local power mechanism is condemned to a shadow-existence if the *economic-financial-political centralization* siphons off the basis of the local decisions. Namely, the local governments should dispose of the local funds which may influence the formation of the living conditions. The local governments may become central factors of settlement development by means of right taxation, subsidizing and business policies. Each decision directly affecting the interests of the local society should be within the scope of authority of the local governments. Without scope of authority and financial resources the local government is only a puppet the strings of which are pulled by the central power;

6) The local interests may reach a mutual consensus with the national-central interests only if they can cooperate and thereby obtain a national influence. The associations protecting the common interests of the local governments have to get a place in the governmental work so that the public administration and legal regulation can be regarded as „self-government-friendly”;

7) At last but not least I should like to mention the role of the *human factors*. No kind of self-government democracy can be imagined without autonomous personalities, politically sensitive and cultured „citoyens” and their communities. Perhaps this is the condition into which we should invest as soon as possible but its accomplishment will still take a very long time. It is in our best interest not to lose patience too early.

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LOCAL ECONOMIC DEVELOPMENT

LÁSZLÓ FARAGÓ

By the eighties it became apparent to nearly everyone that the „socialist experiment” built upon the dictatorship of the „party state” (a term widely used in Eastern and Central European political science) cannot compete with the prosperity and relatively comprehensive democracy of the western nations. Not only was there an insufficient increase in the consumption of the majority of the citizens, but the dictatorship of the party state also stripped the individuals and the communities of their religious, cultural and regional identity, even of the possibility of self-expression. Consequently, the „existing socialist” societies lost their ability to develop.

Starting from the recognition that economic recession is rooted in the political and ethical crises of the existing social system, the recovery sought for in the development of a democratic social system is based on real pluralism in nearly all the countries. The silent revolutions have accomplished results relatively rapidly by creating a more democratic political atmosphere, but it seems much more difficult to find a way out from the economic deadlock.

The run-down national economies that managed to enter the world market in the course of the reforms have a very restricted range of action. The traditional development strategies – e.g. the development of the key industries – can be realized only in the highly developed economies that also have significant reserves. Numerous new development theories, such as the theories of endogenous or self-directed development – in spite of the intention of their creators – are feasible also only in the regions which are development centres any way. In the regions that got stuck on the periphery it is impossible to achieve progress in the mainstream of the economic development.

We may try to adapt the successful welfare model of the sixties, the real alternative, however, is not an economic policy based on central government policy and tools, but one which releases the energies of the civilian society, tempers the shady sides of the centralized industrial societies and is able to liberalize the deterministic centre-periphery relationship. To achieve this, we must change our views on development and the local communities should take an active part in the economic development. The deficiencies of the mainstream of economic development allow for and necessitate the unfolding of economic development at the local level.

Two stages of economic switch

From the deep recession, into which we were forced on account of the mistaken ideology and bad practices of the past decades, we can recover only in the long run.

Adopting Flammang's theory (1989) on the „softening” and „hardening” periods of the economy, progress entails two stages of development.

In the first *stage* stress is to be placed on the qualitative changes and the internal differences of the system must be increased. (This is going on in the reform countries.) By changing the former institutional system and by softening the restrictions that paralyse the individual and group initiatives the social-economic system must be made more flexible and adaptive. With the elimination of the circumstances which conserve outdated production, capital, workforce, raw material and infrastructure will be relieved, allowing for alternative utilization and the organization of new structures. These changes as well as forced evolution have numerous unavoidable bad effects, but only temporarily. In this process, when the production factors leave the outdated production organizations which are unable to develop, the forms of activities not recognized by the market will be abandoned, the bureaucracy trying to conserve them will decline and new well-paying innovations accepted both by the market and the population will be sought for, so *there will be an increase in the differences*. There will be an increase in the regional differences, unemployment and the dispersion of the population incomes will be greater. In this first stage strong centralization, exaggerated taxation may weaken the vitality even of the most thriving ventures and may thwart the development of stable subjects of taxation. Therefore, in the beginning it is expedient to protect the new organizations that represent progress in „incubators”.

When there is a dominance of modern organizations and the majority of the workers are employed by them, the utilization of resources will become fuller again, and then the *second growth stage* may take place. By this time the development trend will already have been confirmed by quantitative indices as well. Unemployment will be reduced and become stable at the level which is required by the adaptation ability built in the system. The number of those belonging to the lower income brackets will decrease. The internal differences of the system will be reduced, and stability will be perceivable again. This is the state when the majority of the society accept the changes, but at the same time the danger of becoming static also appears.¹

This stage must be followed again by a period of renewal. If this does not have to make up for a decade-long lagging behind, the sacrifices to be expected will be less and the period required will decrease.

The „softening”, that is the expansion of the possibilities must entail decentralization. This means the involvement of the lower levels in the creation of conceptions and the decision-making processes. The locality is the scene of macro-processes. Without the active participation of the local agents the new central efforts – the reform itself – cannot be manifested. The new policy presupposes local initiatives, the solution of the local tasks at the local level. Without this the whole

reform process may end in failure. The local authorities may improve the utilization of the local resources and endowments only if they are fully aware of the resources available for economic development and only in this way can the local needs be satisfied by an ever increasing supply. Thereby the general trends become more variegated and the economy more perfect.

Particularly in the first stage it is necessary to try to mitigate the negative effects, ensure bearability which in turn presupposes also local solutions in many cases. This may slow down the changes, but it ensures the absolutely necessary stableness and can be a prerequisite of success.

The change of the control system

A venture is doomed to failure *ab ovo*, if we try to introduce a sub-system which is basically incompatible with the dominant socio-economic processes.² To allow the agents of the economy to launch ventures and the local economic development to unfold, the earlier strongly centralized sectoral control system must be replaced by a more decentralized space-centric model.

The outlines of a space-centric control/planning model may be the following:

The basic organizing principle is the territorially separated population. The basic units of planning and activity are the territorial (administrative) units. In the course of the planning and implementation of the developments the individual territorial units get into contact with each other. They may plan the programmes together and co-ordinate their activities. In numerous areas this occurs regularly between the settlements and the regions incorporating them and it may be based on the jointly recognized identity of interests of the individual settlements. The relationship between the larger territorial unit and the settlements is not based on dependence either. If we succeed in finding the proper division of labour between the elements of the vertical division, then the relations in planning are to be regarded as horizontal as well. The settlements may join or form joint ventures in planning to establish and maintain planning organizations and realize joint objectives.

The state is not the supreme determiner any more. The national programme is mainly comprised of the plans of the settlements and regions. The main task of the central regulation is to maintain the equilibrium of the system. The role of maintaining equilibrium is necessary because the developments of the territorial sub-systems are interrelated, on the other hand, the integration of the political tendencies have to be represented by the nation.

Central regulation influences the local administration and planning in a normative way. There are tasks which are planned by the local governments quite independently, there are tasks that can be performed with executive independence or executive obligation and there are tasks to be performed with absolute executive obligation.

Direct intervention occurs only occasionally. On the one hand, central intervention may be necessitated for instance, in the interest of programmes of national importance or following natural disasters. On the other hand, it may promote the relieving of the conflicts of relatively autonomous territorial units. It is expedient if the central authorities and state organs also participate in supporting issues of central priority in a way guaranteed by legal contracts on the basis of consensus.

Within this model the planning of the social activities gains foreground, which contradicts the sector-centric conceptual structure. The vertical sectoral structure will be replaced by the horizontal relations and mutual interdependence of the territorial units with greater autonomy. A greater and greater value will be attributed to the local endowments and possibilities. One of the main functions of the regional plans will be the coordination and reconciliation of interests. In this model space is not a passive factor of the system, it actively influences the social activities.

The regional, local decision-making mechanism is not free of politics. The decisions made in connection with local planning are part of the local politics. Local administration also entails the making of political decisions to a greater and greater extent. The allocation of resources, the ranking of priorities in investment are based on a selection of values. The political character of planning is shown by the fact that the choices are always made between possible alternatives based on concrete interests. But these local decisions are not decisions related to party politics. The parties take a stand in general issues, in the local politics the decisions have to be made concerning operative questions, on the basis of a consensus that reflects the local power relations. Planning also becomes politicized and the regional movements may also have an important role in this.

The regional movements strive for political autonomy, a greater possibility for ethnic and cultural self-expression. This entails regional politicizing. In addition to the unified national parties regional parties may appear as well, or rather it is expedient for the local organs of the national parties to include regional, local objectives in their programmes as well. The regional planners have to be in contact with the leaders of the regional movements and the local economic-cultural élite that exert influence upon the public opinion of the local society and are able to undertake the articulation of the local interests. The regional movements do not entail class or stratum politicizing. Identity may be established by the community of regional-cultural-economic interests in a number of issues.³ In this case the individual consciousness does not operate as a part of the nation, it is motivated instead by the interests of the inhabitants of the given region or settlement. Neither are the local governments and regional planners to mainly allocate tasks and instruments coming from the outside, but they are to explore the internal resources of development and meet the needs of the local society.

In this system space is a factor which separates, assembles and articulates the interests at the same time, but it also unites, since it is in the interest of the separated regional units to seek for the cooperation and collaboration that can be found decisively in the horizontal relations.

Since it is the space and the local society and not the special internal regularities of the sectors that make up the main organizing principle, alternatives that were „non-competitive” in the former system may get side by side. The local endowments, the concrete needs and employment possibilities of the population may get a greater emphasis. This allows for the more harmonic adjustment to the social division of labour. Within this system the objectives and the people realizing them get closer to each other and it becomes possible both to have direct control over their realization and intervene rapidly when required. In this model commodity production does not take place exclusively within the sectorial framework because a similarly important framework is provided by the locality, the society of the locality. The regional and local financing capacity should be strengthened at the expense of the central budget. The point of departure of the local developments is not merely the development need of the commodity producing sector but also the development possibilities of the local societies.

The basic concept of the local economic development

The „place” or „locality” is not merely a physical space or a geographical region but a complex of events, processes taking place between people, a socio-economic space in which there are or there may be established common economic interests, ethnic/cultural and community identities. The adjective „local” can modify the content of economic development in a special way. It refers to processes which remain within the given region and are linked to the given territory for some reason or another.

In the development of the local economy we may not identify development with economic growth, it should rather be interpreted as a qualitative, human-social phenomenon. During a shorter period development may as well entail fewer economic achievements. Growth is tantamount to development only if it also results in the *structural change* of the socio-economic system. The soft factors of development, the quality of life and environment, the preservation of the cultural heritage, self-governing etc., play a greater and greater role in judging the processes. The alternative or complementary development paths call into being more and more political, social and cultural objectives in addition to the economic ones. These should be formulated, investigated and evaluated at the local level with a wider and wider participation of the population.

The *general objective* of local economic development is the same as that of any economic policy at any level: the removal of the obstacles blocking the way of economic development, the moderation of the anomalies arising from the imperfect functioning of the market. Its *primary goal* is the improvement of the employment possibilities (income relations) of the local population. In the realization of this goal both the local government and the population should *actively* participate. In a quasi-market economy the local communities have to marketize their human and natural resources by means of utilizing the comparative advantages. By inducing new eco-

conomic activities and preserving the existing economic bases they should be able to make the local economy more competitive. An enterprising, active local society can increase the performance of the economy and the self-sufficing ability of the settlement.

A central policy formed top-bottom can handle efficiently only general economic phenomena, main categories and tendencies. Local economic development has to concentrate on the specific local endowments relying on the local resources in a wide sense, it has to maintain or even occasionally create differences so that it can fill in the economic gaps, grasp every possible opportunity or cater for special local needs. The determining elements of this policy are the rather complex factors generated from the natural and artificial resources of the community; the quality of the physical and social environment, the operating and articulating institutional structure.

Local economic development is a target-oriented process serving the interests of the local population and groups in which the population and its democratically elected leaders intensify the utilization of the local resources observing the conditions of equilibrium, increasing the adjustability of the economy and enhancing welfare. The autonomy of the local communities is presupposed in the assignment and realization of the objectives to the extent made possible by the local resources. In the light of the available current resources the result also depends on the ability of the local administration and self-organizing groups of the population to manage their own resources and interests. In this process the local society attempts to form the local economy in such a way that it can serve better their basic needs and long-term interests, namely:

- *economic security*: the security of the workplaces and ventures, the possibility of efficient, healthy work, the meeting of basic needs,
- *local democracy*: the participation of the people in the decisions affecting their living space, democratic control at the workplace and in the local government,
- preservation of the cultural heritage and the natural environment.

Local economic development is such a self-regulated internal process which affects the internal structure and not the external development of the local society above all. In this development process the local inhabitants manage autonomously the adjustment of their region to the changes of the external world.

The local economic development approach endeavours to harmonize the technological progress, the social, human values and the preservation of the natural equilibrium. The „soft”, quasi-welfare economic approach to these economic issues does not question the importance of the production of new values, it only does not assume that it is indifferent how it occurs. The plans based on the historical, cultural and social traditions of the region do not represent a refusal of the technological progress and the modern world, but they aim at making it possible to enter the modern world under the maintenance of the consciousness of micro-regional identity and self-confidence.

Some issues of the practical implementation of local economic development

Economic development on a local basis requires substantial changes also in respect of the agents and activities: it presupposes a decentralized system of institutions and powers. The local societies are to form their own political, administrative, financial and development organizations. Beyond the declared political intentions independent local planning and executive apparatuses are needed to allow for the exploration and mobilization of the local resources. Above all, the local government has to possess the necessary powers, intellectual and financial conditions to be able to govern local development. The locality requires stable financial funds. A settlement, region or a given group of settlements (e.g. villages) may not be taxed to the extent surpassing the subsidization they get for a long run.

Local economic development is first of all based (with an intention of intervening) on the economic spheres where the influence and control by the local government and the civilian society is feasible. These include chiefly community-owned ventures, local co-operatives and small or medium-sized ventures the owners of which are local inhabitants. Local economic development can be realized only if the objectives are consistent with the wish of the majority of the local society. Such production procedures and technology should be used over which local control can be realized with the help of local experts and authorities. In choosing the production structure attention should be paid to the maintenance of the ecological equilibrium and the possibility of meeting the basic local demands, better utilization of the local resources and the substitutability of the imports.

With the full knowledge of the local endowments the local economic policy may intervene in various fields of the economy. It is an issue of utmost importance whether it targets the new dynamic or the declining sectors. The supporting of the new developing sectors that carry the dynamism of the economy can be justified on the grounds that the private sector is not always interested in taking account of the long-term tasks in its decision-making, and the alleged stableness of the state-owned companies does not make the managers interested in making a decision in favour of the new sectors. On the other hand, the protection of the declining sectors may temporarily save the local communities from the negative effects of the withdrawal of capital. The *central economic policy* (taxation system, subsidization mechanism etc.) should give priority to the developing sectors representing progress and it should ensure the chance for the local policy to make the reduction, liquidation of some sectors tolerable in the interest of the local population by means of the local instruments above all. As the impact of the interventions is different from region to region, the local governments also have to make efforts to join the mainstream of progress.

The objects of economic development may be the following:

1) Production factors:

a) *Labour force*: An ever important element of the economic development policy is the human factor. The highly developed societies always spend much on education, nevertheless, at a given time and in given places the help of the local economic

policy may be required for the training and retraining of certain strata. The inefficient functioning of the labour force market may be corrected by the setting up of employment agencies, data banks on workplaces and the dissemination of information etc.

b) *Capital*: The local, regional banks may stimulate the development of the local economy. In addition to the chronic shortage of capital, the lack of information, or in the case of small-scale projects, the lack of dispatching, guarantor organizations may cause much trouble, too. Because the small settlements, the underdeveloped regions inevitably lack the suitable experts as well as information about the capital market, the actual shortage may seem greater than it is in reality. The local administration or target-oriented non-profit organizations may take the role of mediators.

c) *Land* (building site): The purchase of a plant or a building site and its supply with infrastructure may incur such costs for a new venture or a venture moving to another place that the venture itself may be at stake.

2) Ownership relations:

Economic democracy – which should be aimed at by every government – also presupposes equal opportunities for the different types of ownership. The regulators and endeavours which do not ensure equal opportunities for the different forms of ownership at the macrolevel are incorrect and are doomed to failure. (Naturally it does not mean that e.g. it is not possible to give central support to the small and medium-size companies under given circumstances.) The local economic policy may be different from the central economic policy. In the case of similar expected advantages the local authorities, organizations have to give priority to local ownership over external ownership. In the interest of the local society the ventures whose local dependence is greater should be helped. A given locality may prefer some ventures owned by the nation, an ethnic minority or, in the field of mining and heavy industry, ventures owned by women. It may counteract undesirable discriminations or just try to solve the troubles of a certain stratum. The ventures owned by the community or employees may have a long-term impact beyond the direct economic benefits and for this reason their local support by the local organizations can only be recommended. The local attachment of capital, the increase of democracy at the place of work and the contentedness of the employees may stabilize the local society.

Effects of local economic development

The socio-economic effects of the local economic policy may be of physical, demographic, financial, economic changes and they mutually affect one another. These changes influence the formation of the population, employment, incomes and the quality of life.

According to the representatives of the static economic theories the local economic development programmes produce no effect on the whole of the economy because it is only a „zero sum game”, that is, although economic development in

one place may result in the advantages of a regionally separated population, this very intervention may cause „damage” of the same extent elsewhere. Nationally the level of employment is determined by the macroeconomic conditions and it has little to do with local decision-making.⁴ Any locality can fight out only a share of the available employment possibilities and investment funds. The local economic development programmes do not create new jobs, only redistribute the existing ones. If a settlement succeeds in attracting a venture, it merely strips other communities of the possibility of establishing one. This possibility strengthens the competition between the individual places and may turn the different communities against one another. The economy or the whole of the country does not gain anything in this struggle, only the tax-payers of the more successful settlements purchase the disadvantage of other communities. In this vein the resources consumed in this struggle bring about additional expenditure at the level of the national economy, which amounts to a loss.

On the basis of this argumentation it is obvious that the local economic development programmes may be efficient at the local level, which is not a matter of indifference from the aspect of the affected community, at the same time they are not ineffective or loss-producing even at the macrolevel.

It is principally the governments of the underdeveloped or depression zones that are interested in supporting the economic development by local programmes, or eventually by providing subventions. These zones are mainly characterized by a surplus of labour, because the labour force is not quite mobile and its transmigration is of small scale and, more importantly, slower than required by the scarcity of employment possibilities. The surplus of labour and the subventions may mobilize new capitals and mainly ventures which are independent of other location factors may flow towards these spaces. Such new ventures will appear which would never have been created otherwise. Thus in every area with a surplus of labour it is possible to increase employment, every community may win without causing loss to the others.

It has been pointed out that the probabilities of a zero balance depend on whether the whole of the economy grows or not. A zero balance is not an unavoidable consequence, if the economy grows at the national or regional level, or if there are differences of efficiency between the sectors or regions, or other aspects are taken into account in generating jobs, incomes or other results in the various localities.

In so far as large-scale migration towards the regions offering more favourable employment occurs and there are obstacles in the way of further growth, the situation will not be solved once for all by the fact of migration, only unemployment has been exported. A long-term solution at the national level may only be brought about by the local elimination of employment difficulties.

The neo-classical statement, which points out that in the case of the efficient allocation of an activity the local economic development efforts may only spoil the existing situation, is static. In a dynamic economy, when new products are introduced, new resources are exploited, the organizational and institutional conditions are changed, the raising of efficiency may take place not only at the expense of eq-

uity. The relocation of one economic activity from one place to another would have a zero balance or be losing with regard to the costs of translocation as well only if the same product structure were manufactured by means of the same technology and at the same level of employment. Empirical research has proved that this does not happen in practice. The relocations make use of the different possibilities provided by the new location, while the relocation of existing domiciles under unchanged technologies hardly ever occurs. Local economic policy exerts profound influence on new and expanding investments.

Another argument against the theory of useless competition is that different incentives are used by the different regions to stimulate different areas of the economy. In this case the success of one community does not deprive another community of its possibilities either. The system of financial support is only one means of influencing the economy, which has a decreasing effect. Better local services, infrastructure, the research and educational background, the quality of the environment play an increasingly important role in attracting business ventures. One of the main tasks of local economic development may be the exploration and strengthening of the utilizable differences.

Others have proved that in the case of a growing economy the local economic development may result in actual development at the national level. *What happens in the case of a stagnating or declining economy?* If the local economic developments call into being economic activities which were not formed under the impact of the market or upon the initiative of the central policy and these economic ventures do not hinder more efficient production, then the chance of a zero balance decreases. This is particularly so, if the disturbances of management at the macroeconomic level are caused by the unfavourable institutional system, the lack of social control etc. Local economic development may correct these mistakes, thus it may contribute to development both at the local and national levels. Namely in the central command economies it is not possible to make use of the local possibilities which, therefore, may remain below the theoretical performing ability of the economy.

Summary

In Hungary there have been efforts for centuries to „make” politics and an institutional system by means of a series of central reforms. Our present coalition government is not free of these efforts either. The self-organizations, the local initiatives and „natural” economic selection should be given a wider scope. A civilian social activity based on group and individual interests, local loyalty and regional (ethnic/cultural) identity would sooner lead to a stable social agreement than the struggle of the party interests the outlines of which are not clear yet.

The government has not significant reserves and resources at its disposal to renew the economy and it cannot expect serious financial assistance from abroad either. Therefore it is essential to manage the available resources much better than

before. The exploration and intensive utilization of these can be carried out at the local level with the help of the civilian society above all. At the level of the national economy, local economic development is an inevitable complementary to the macro-trends, on the other hand, it is a realistic economic development alternative for the settlements or regions. Local economic development, which directly serves the interests of the local population, intensifies the utilization of the local resources, the competitiveness of the local economies, enhances the welfare of the citizens and thereby proves to be efficient at the national level, too.

Notes

¹ The society tends to owe the accomplishments to the leaders (political parties) who are in power in the second stage, although the possibility was created basically by the progressive powers of the first stage!

² The economic reforms launched from the sixties were to fail ab ovo because they affected only a certain part of the economy. This is similar to trying to give first aid to a drowning man without taking him to the shore.

³ The introduction of public amenities in a street serves the interests of a company as much as that of a labourer. The thwarting of a nuclear investment plan may be in the best interest of all the residents of a space regardless of their affiliation to class, stratum, region or party.

⁴ According to *Molotch* (1967) the USA has a constant unemployment rate, according to the estimation of the Trade Department some 4–8%. The workers migrating in the country play the „game” in which there are fewer chairs than people, therefore under the given allocation someone always remains without a seat.

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**THREE-YEAR DEVELOPMENT
CONCEPTION OF THE HUNGARIAN
TELECOMMUNICATIONS**

Our Company – according to its mission and basic goals – is working to ensure that, within the shortest possible time, telecommunications become an actual servicing enterprise both in the economy and the private sphere.

As the only provider of basic telecommunications services in Hungary, in accordance with the Telecommunications Law now under preparation, we have started preparations for proper cooperation with our, future partners in competition to come in to the area of telecommunications.

To accomplish a dynamic development in telecommunications, our Company has prepared a three-year project with the following major strategic principles:

- accomplishing development on a commercial basis*
- attracting home (mainly regional) as well as foreign capital*
- separating several telecommunications services (e.g. payphone and PABX services as well as packet-switched data transmission) from the basic services and their development in competitive enterprising forms*
- stepping in to the market of personal paging system and cable television*
- acquiring dominant market shares while developing several market branches.*

Our main goal in the practical realization of the above mentioned principles, is to develop the infrastructure of the regional telecommunications network, thus providing basis for local initiatives, and ensuring the possibility of applying the market sphere services, according to the following principles:

- establishing the digital backbone – network connecting 56 nodes all over in the country and ensuring unlimited capacity of trafficability performance*
- installing digital exchanges with a complete service coverage in the 19 county towns to satisfy foreseeable demands (in terms of exchanges to be connected, facilities to be used and traffic to be handled) of the county-region.*

Proper enterprise-spirit and capital investment can develop completely automated and modern telecommunications services in all regions of the country within a period of 4 or 5 years.

Building on the backbone-network soon available everywhere, the data- and textcommunication services will be developed in the first place, based on enterprises adjusting flexibly to demand. We will also undertake developing areas and different new services (VSAT, personal paging system, etc.) in cooperation with foreign partners.

In order to achieve our goals and objectives more efficiently – in accordance with the World Bank loan contract – our company will change into a joint stock company. The strategic goal of privatization is to become capable of satisfying a large scale of demand with the help of an organisation that is service oriented and efficient. At the same time, privatization will contribute to our Companies becoming increasingly capable of competition, renewing its organization, and developing its managerial methods as well.



PECULIARITIES AND PROBLEMS OF REGIONAL ECONOMIC DEVELOPMENT IN ESTONIA

ELVI SEPP

Though Estonia is a small republic (area 45,000 km², population 1.6 million), its development is characterized by marked territorial unevenness and functional differences. Irrational location of productive forces, mainly superfluous concentration of population and services, has caused numerous problems and bottlenecks; to get rid of them, efficient regional policy is to be pursued.

Below some most important tendencies in the social and economic development of Estonia revealed by a territorial survey of the last 50 years are discussed.

A state's territorial administrative division forms the framework of her regional development, being to some extent also its regulator. The radical change in the system of state power and government in Estonia in 1940 soon brought about extensive and significant changes also in the territorial-administrative organization within the republic. So, the system of counties and municipalities based on principles of self-government was found not to meet the political and economic requirements of the Soviet Estonia. The aim of bringing state power nearer to working people was set. The first so-called Socialist rearrangement in the field of administrative division of the territory was the formation of territories of village soviets in 1945. A survey of the formation of the administrative division of the territory of Estonia is given in *Table 1*.

The political and administrative authorities of counties were allegedly too far for efficient guiding of socialist industrialization and especially collectivization of agriculture, and they were also said to lack qualified staff for these tasks. For these reasons a completely new territorial administrative division was established in 1950. The essence of the reform was the substitution of local self-government of municipalities by state power in village soviets. Some essential consequences and effects of this change on the socio-economic development will be dealt with below.

Table 1
*Territorial-administrative division of Estonia in 1941–1990**

Number of	1941	1950	1951	1956	1961	1966	1971	1981	1990
towns	31	33	33	34	33	33	33	33	33
boroughs	–	24	26	28	23	24	24	24	23
counties	10	13	–	–	–	–	–	–	15
rural districts (raions)	–	–	39	39	23	15	15	15	–
municipalities	238	233	–	–	–	–	–	–	–
village soviets	–	637	641	320	257	239	235	193	191

*Compiled on the basis of statistical yearbooks Eesti NSV Rahvamajandus 1970, 1989.

In Estonia, like in the majority of the countries of the world, the administrative division is continuously being improved to make administration more efficient. Since the 1950s the main trend has been to reduce the number of administrative units, accompanied by the increasing of their size. The number of both primary- and secondary-level administrative units has decreased over three times during the last 40 years. By the way, the same tendency has been characteristic of several North and East European countries (e.g. Sweden, Finland, Czechoslovakia etc.).

The latest change in Estonia in this field was made in 1990: the former raions are again called counties, though presently this involves little more than a change of labels. Functional and organizational reorganization of their work is presently on the agenda.

The average parameters of the presently existing administrative units in Estonia are the following:

county – area 2,883 km², population 46,700, distance to the centre 30 km;

village soviet – area 225 km², population 2,340, distance to the centre 8.5 km.

For comparison it might be said that the average population number of Estonian administrative units is approximately as big as that of the other Baltic republics – Latvia and Lithuania, but their area is much larger.

Of course, there occur substantial regional variations, and this means that in some areas serious difficulties are faced in the contacts of the centre and its hinterland. For example, in several counties such territories of village soviets can be met which do not form any social or economic whole and which have typical characteristics of outlying areas (big distance to the centre, unfavourable geographical location with respect to transport, lack of service establishments, limited number and one-sidedness of jobs, ageing of the population, the so-called rural style of life, destruction of the settlement system etc.). A survey of the distribution of the territories of village soviets in Estonia by size and its changes is given in (*Figures 1, 2*).

Figure 1
Distribution of village soviets by population number in 1959 and 1989

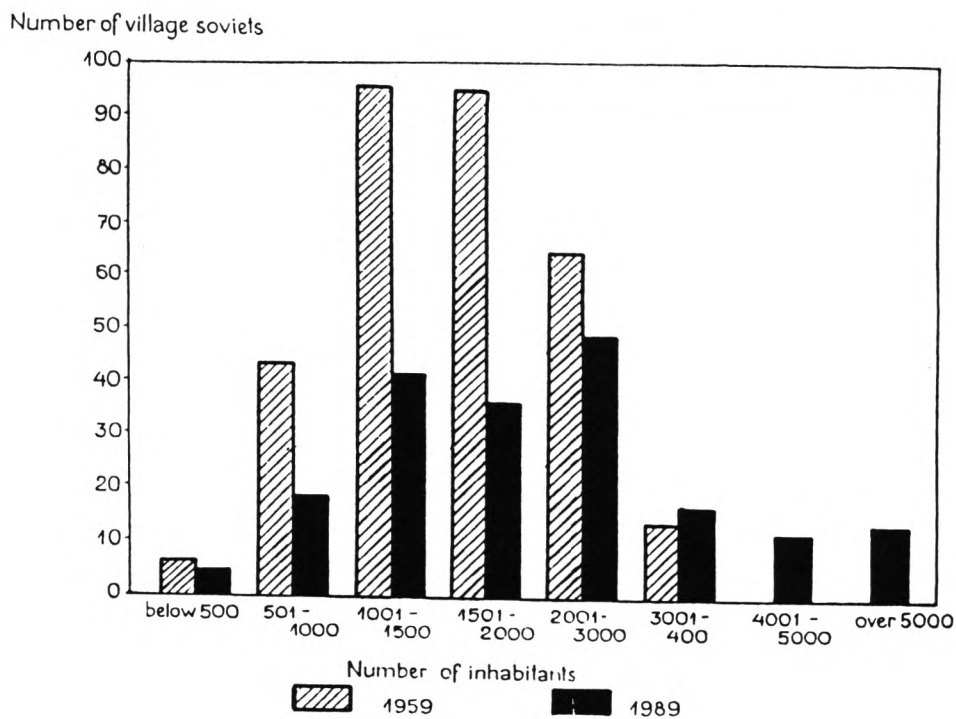
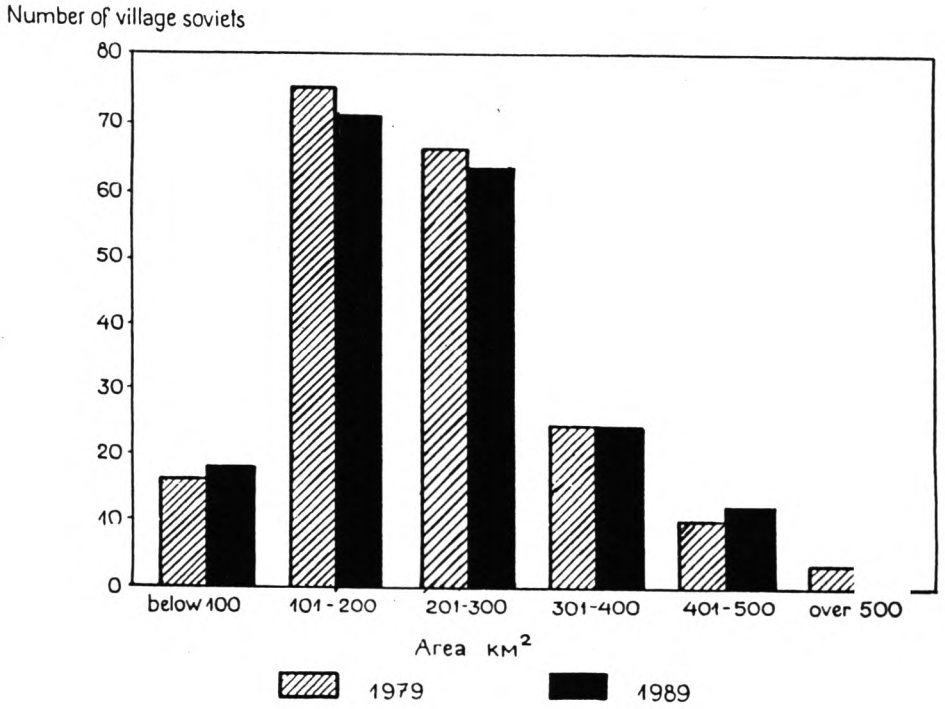


Figure 2
Distribution of village soviets by area in 1979 and 1989



Two possible solutions are envisaged to this problem in the course of the administrative reform under way. First, instead of some especially large and unreasonable village soviets two smaller municipalities could be formed, and secondly, within large municipalities the so-called submunicipalities with limited self-government might emerge. To ensure more democratic and better balanced development than hitherto, at local governments consultative bodies may be established, whose members will protect the interests of the settlements and subunits belonging to the administrative unit.

The aim of both alternatives is to bring actual self-government nearer to people by means of territorial decentralization of power, so that various regional peculiarities (people's wishes and needs, possibilities for economic growth, environmental conditions etc.) could be considered as completely as possible. Here it should be noted that decentralization of power depends to a large extent on the available limited resources, i.e. material, financial and labour resources. The extent of reasonable and possible decentralization of power is yet to be proved by the efficiency of local governments and the accuracy of their decisions.

Characterization of the location of productive forces and the resulting regional unevenness of various socio-economic developments is much more difficult and complicated than giving a survey of the history of the formation of the administrative system. Resource, demographic and production potentials are the principal factors on whose basis big differences are established in people's living and working conditions in different regional-economic units (in towns, counties, municipalities, and rural settlements).

The territorial statistics existing in Estonia is unfortunately unable to meet all information needs of actual guiding of social and economic development. For example, besides data on population, there is no official territorial statistics about smaller administrative units than counties (whose number in Estonia is only 15). Under such conditions it has been difficult, we could even say impossible, to work out a reasonable and scientifically substantiated strategy of regional economic development. There are several reasons for the lack of territorial information: a lot of data used to be classified, the technical systems for collecting, processing and storage of information are out-of-date, central planning bodies (who enjoyed the monopoly of decision-making) lacked interest in such information etc.

The first step aimed at overcoming this deficiency will be the creation of various registers, like those of population, enterprises, real estate etc. following the general practice of the world. Next it is necessary to rearrange the whole system of statistics proceeding from the interests of Estonia, this means the present all-Union system of data processing and presentation as well as several inadequate instructions will be given up. General principles for carrying out this change are presented in the Act on Statistics adopted in Estonia in March 1990.

Regional-economic research conducted in Estonia shows that the main problem of regional development here is imbalanced territorial development. Above all it means excessive concentration of productive forces in centres, especially in bigger towns, and in the rural areas, in farm centres or settlements which used to be re-

garded as having favourable development prospects. Below some figures are presented to confirm this statement.

Out of the total population 71.6% lives in urban places and only 28.4% in rural areas; considering the technical level of our agriculture, the rural population is too small. Because of the shortage of labour the quality of work is sometimes poor, and this, in turn, reduces production efficiency. Not all areas suffer equally from labour shortage. Differences between counties in labour/agricultural land ratio are nearly two-fold, and between farms even five-fold. During the whole post-war period population outflow has been bigger than average from South-East and West Estonia, but in the neighbourhood of the capital Tallinn rural population has increased all this time. Territorial differences in the dynamics of rural population are shown in *Figure 3*.

The five biggest towns in Estonia (whose population is over 50,000) concentrate already 51.4% of the total population of Estonia, and their importance has been continuously increasing (as compared with 1960, the increase has been 14%). At the same time there are a dozen or so small urban places with a decreasing population and stagnating socio-economic life. The geography of their location is a reliable guiding-mark for distinguishing underdeveloped areas on the territory of Estonia (*Figure 4*).

Among other indicators also the age structure of the population of different counties and especially territories of village soviets and settlements testifies to noticeable regional unevenness of the vitality of these administrative units. Findings of a detailed study of population in a typical peripheral county – Võrumaa – show that nearly 20% of the settlements there have either none or 1–2 under-age (under 16 years old) inhabitants. At the same time about a fourth of the village have over 50% of inhabitants of pensionable age, in some places their share is 80–90%. Without outside interference and radical measures of regional policy these villages will dye out.

A completely new situation and tendencies and new grounds for regional-economic development will be created by the establishment of the system of local self-government, or to be more exact, its rehabilitation after a nearly half-a-century's break. The Act on the Fundamentals of Local Self-Government that became effective on November 10, 1989 created a certain legal base for the work of local self-governments; however, the organizational, economic, financial etc. rearrangements required for its practical application are only in the initial stage. Among them the right to form primary-level local self-government units with sotosay limited competence in Estonia granted by the government's decree on creating a system of primary-level self-government. deserves mentioning. The principal and indispensable preconditions of the functioning of local self-government are: independent budget, municipal property, the right to impose local taxes, regulate enterprising, make decisions about the use of land, other natural resources general weal and law and order. These are simultaneously the functions to be transferred to the competence of towns and municipalities in the first place.

Figure 3
Changes in the number of rural population by counties in 1960-1990, %

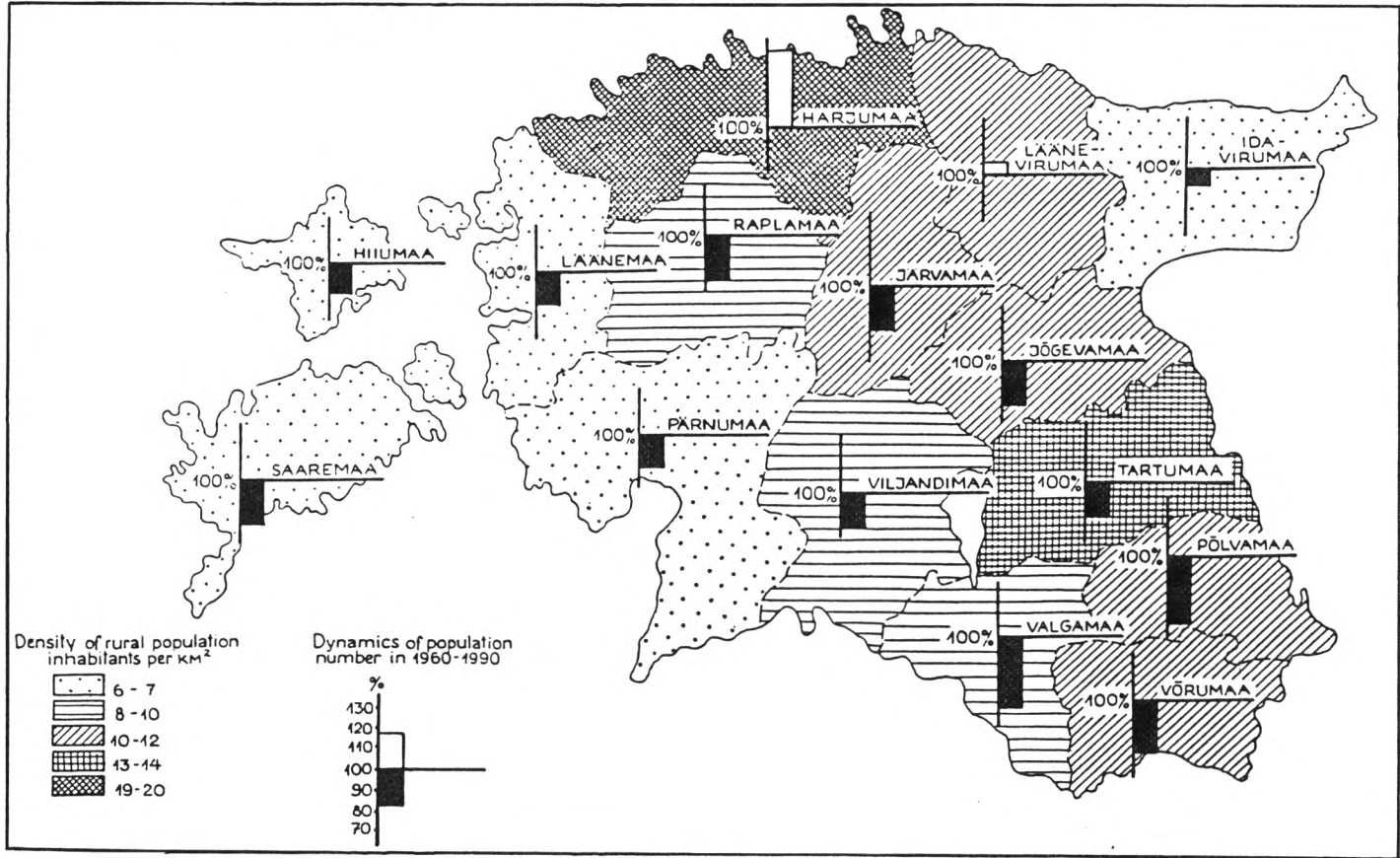
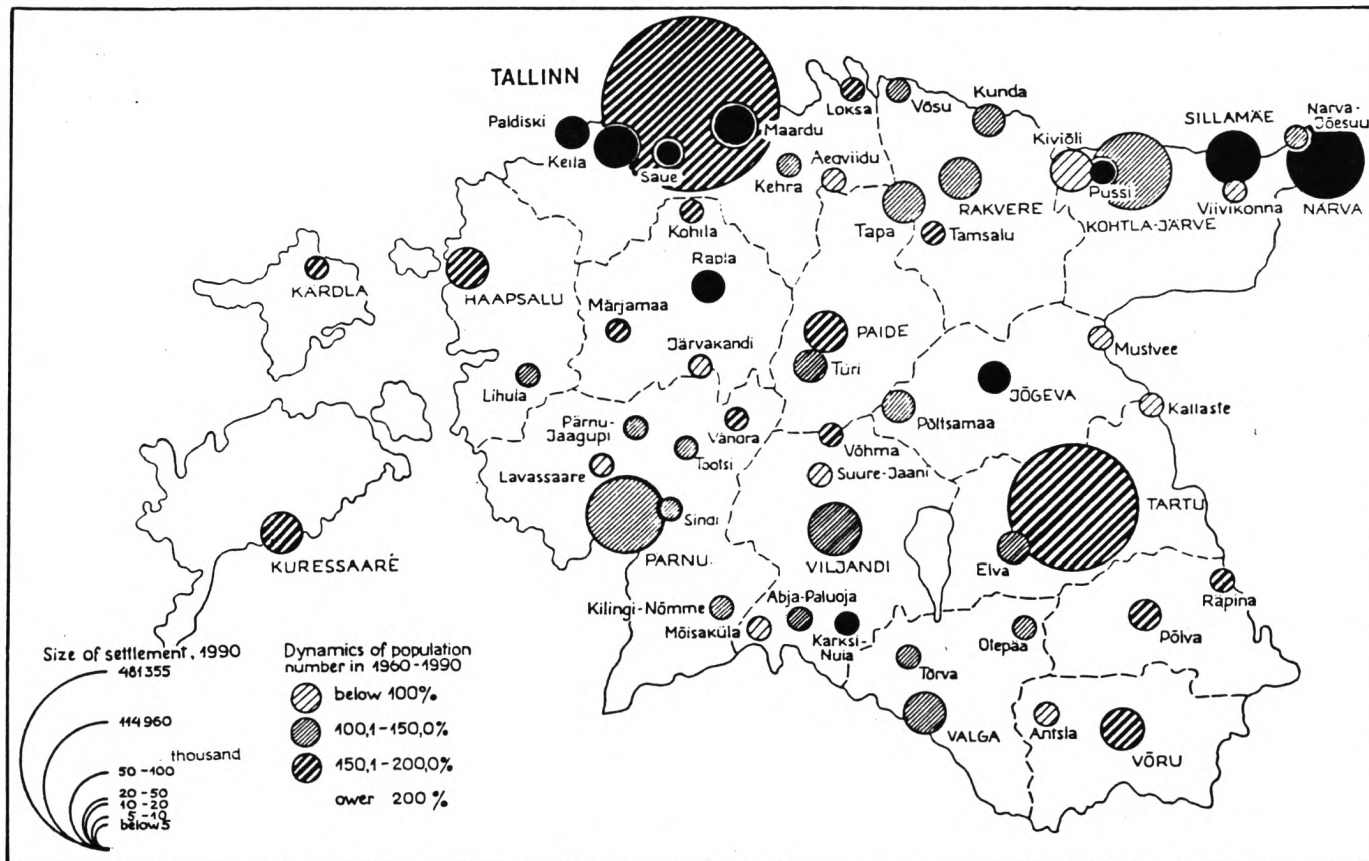


Figure 4
 Dynamics of the population number of the urban settlements in 1960-1990, %



An extremely important problem from the standpoint of balancing regional-economic development and the vitality of the whole Estonia is substantial decentralization and deconcentration of power and together with it, of the whole social and economic development. While formal transfer of power to the primary level can be accomplished rather quickly and mainly by means of legal and organizational measures, then the actual levelling of the socio-economic potential and development conditions, among them income base of the local governments is a complicated and long-term process.

Among other thing this requires a rational division of power and competence on the one hand and obligations and responsibility on the other between the two level of local government (county and municipality). There are a number of issues, e.g. environmental protection, exploitation of resources, proprietary rights, statistical calculations etc. that should be transferred to the competence of municipalities either under the existing conditions or in principle.

Because of the above-described and numerous other peculiarities of regional-economic development Estonia needs efficacious regional policy. Big differences between the development levels within the republic cause social injustice and, owing to it, contradictions and tension between different regions; moreover, such situation bring about unfavourable economic consequences, for example, outflow of people from regions suffering labour shortage to centres with sufficient labour having a higher level of development and more favourable working conditions.

As a result, production capacities are underused or not used at all (arable lands are left uncultivated, buildings and equipment stand idle etc.) due to labour shortage; on the other hand, overconcentration of production and population brings about complicated and therefore costly ecological, social, town-planning etc. problems.

The present territorial structure of the socio-economic situation in Estonia is an outcome of the interaction of two groups of factors with entirely different character and origin. They are, first, natural conditions and resources together with the geographical situation which could be regarded as the natural-historical base, and secondly, various levers of centralized management and strictly planned economy (fixed production structure, centralized allocation of investment and material resources etc.). Owing to the long-term effect of these different factors the specialization and economic potential of different regions and administrative units and hence also their objective possibilities to draw incomes and to develop the social sphere, differ radically.

The unjustified and unreasonable unevenness as the main characteristic of the territorial development within Estonia and its effects and consequences have been neglected during the period of centralized and predominantly sectoral management for years. This means that up to now no purposeful and scientifically substantiated regional policy has been pursued in Estonia. To confirm this statement, let us give a short survey of the history of territorial planning and management.

Problems of territorial planning have been systematically handled in Estonia since the 1960s. An important yardstick in this work is the completion of a compre-

hensive scheme of territorial planning in 1970. In addition to the territorial development of all branches of economy, the scheme included a detailed plan of the hierarchic system of settlements with the aim of developing a regular network of centres with different sizes, importance and hinterlands on the territory of Estonia. Later on several other conceptions of the development of the settlement system in Estonia have been compiled, the latest was completed in 1986. However, all this work has been conducted under the ideological guidance and according to the methods of central institutions in Moscow; this means that local characteristics of the development and settlement system – above all the specific way of life and scattered settlement system – have not been considered. For example, 70% of the total number of Estonian rural settlements (3,442) are hamlets with fewer than 100 inhabitants; the average population of a rural settlement is 130. These indicators for the Soviet Union as a whole are 50% and 275 inhabitants, respectively.

Likewise the so-called settlements with favourable development prospects were distinguished and their growth regime fixed by the orders of the centre. Note that in Estonia only 6.8% of the total number of rural settlements were regarded as having favourable development prospects and deserving further growth. In practice the principle of certain differentiation of the growth of settlements that is unavoidable and well substantiated was unfortunately replaced by a policy that furthered only centres (the so-called settlements with favourable development prospects) and doomed all other settlements to decay. This mechanism has resulted in a serious regional problem in Estonia, namely the existence of underdeveloped outlying areas. According to a preliminary estimate such areas account for 17% of the rural settlement and 8% of the rural population of Estonia.

In addition to comprehensive schemes regional planning schemes, master plans of towns, boroughs and bigger villages, and development schemes of various areas with specific functions (recreational areas, industrial regions, nature reserves etc.) have been compiled. Regrettably, a characteristic feature of all these documents is lack of legal guaranties for their realization, and this has considerably diminished their effect in guiding regional development. In the future both the contents and authority of such schemes will have to change. Their present passive role consisting mainly in summing up regional subplans and comparing them with the local resources, must be replaced by an active role and such plans which are aimed at efficient regional development, scientific and technological progress, improved quality of social development etc.

Under the present conditions of immense unreasonable territorial inequality in the level of productive forces caused by the demand economy mainly by means of state-owned resources, it is impossible to apply one of the main principles of local self-government – complete regional economic autonomy – everywhere and at once. It will be inevitable to redistribute part of the incomes between regional units, proceeding in so doing from the principles of regional policy.

Unfortunately, we must admit that a comprehensive and generally recognized concept of regional policy has yet to be worked out. Serious efforts are being made towards that end. In the near future two foundations are to be established to regu-

late regional economic development in Estonia, or to be more exact, to get rid of the present big differences.

According to the Statute of the Estonian National Territorial Sanative Fund, the Fund's resources shall be used in the following main fields: 1) for supporting local budgets, 2) for stimulating enterprising in economically weaker areas, and 3) for conducting research necessary from the standpoint of regional policy.

The Fund shall allocate resources for projects proved necessary by regional research either 1) as single grants or as regular grants during a certain period, or 2) as loans without interest or with low interest.

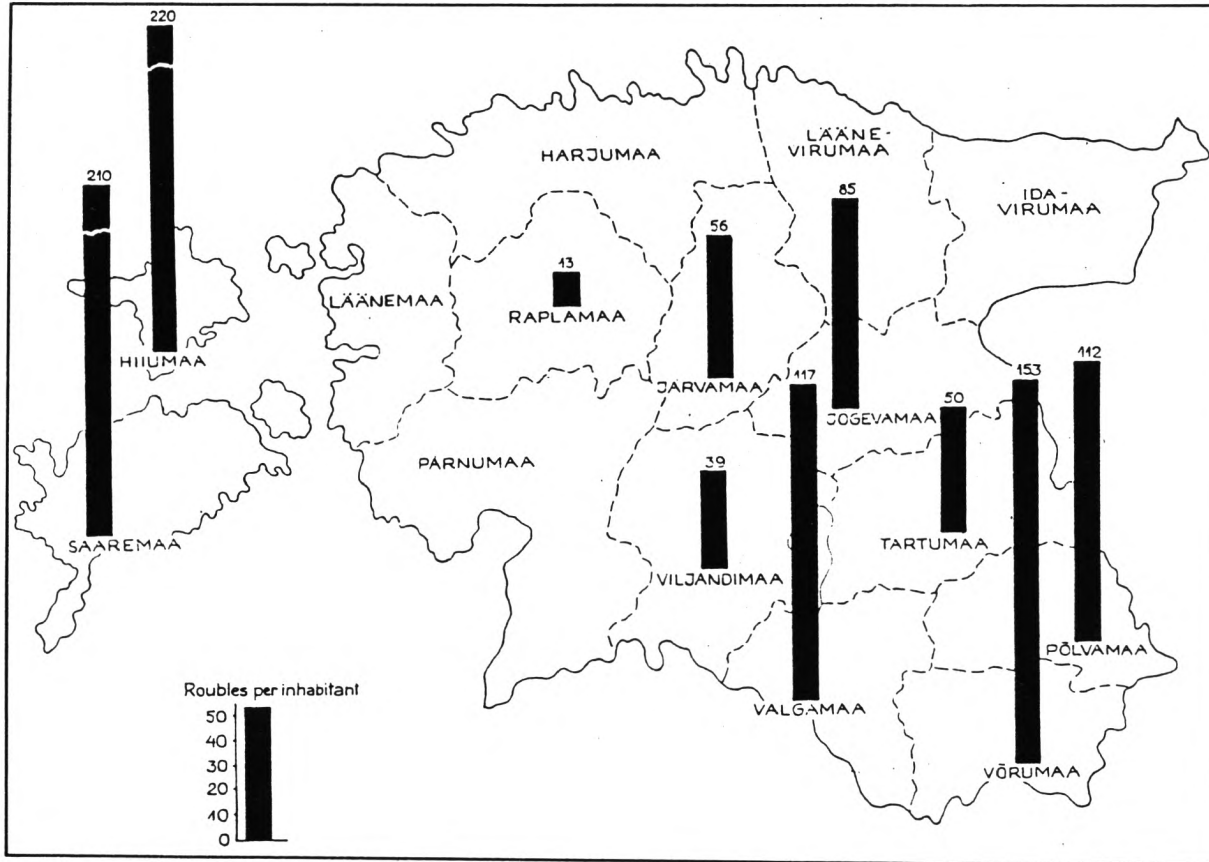
The main sources from where the Sanative Fund will draw its financial resources are allocations from the national budget, donations and grants by enterprises, institutions and organizations or single persons, and receipts from the Fund's business activities.

The bulk of the monetary resources of the new Fund should be furnished by these means of the national budget that so far have been allocated to regional units on normative basis. For example, the sum total of subsidies for local budgets is nearly 39 million roubles in 1990, and it is used to support 2/3 of the counties (i.e. ten out of the fifteen). The absolute and relative size of subsidies varies greatly being 13–220 roubles per inhabitant (*Figure 5*).

Introduction of the new financing system – the Territorial Sanative Fund – means that the existing regional allocation of state funds on normative basis will be replaced by an allocation mechanism based on objective, scientifically substantiated criteria, or in other words, principles of regional policy.

The other foundation to be established could be called Homesteaders' Fund, and it will create basis for introducing a new programme of so-to-say selective stimulation of regional development. The policy that concerns homesteaders is envisaged for several years, and it will be realized mainly by the Ministry of Agriculture and its Homesteaders' Board. The establishment of new homesteads serves both social and economic goals, namely it is aimed at reviving stagnating areas and at increasing agricultural produce. Thus, the goals of the formations of new homesteads set today are much more variegated than those during the years of Estonian independence, when the main aim was to satisfy the so-called land hunger of rural people. This is why the present territorial localization of new homesteads differ from that in 1919–1939 when the more than 56 thousand new homesteads were scattered all over the territory of Estonia. Today it is attempted to establish new homesteads mainly in stagnating areas. So for the establishment of new homesteads 14 areas have been selected in the outlying areas of six counties where villages are empty of inhabitants, buildings are in ruins and former arable lands have become overgrown with brushwood.

Figure 5
Financial support (subsidies) to local budgets by counties



The Government of the Republic of Estonia has allocated 8 million roubles from the 1990 budget for the creation of new homesteads and the conditions of using this money are extremely favourable. For example, loans without interest are given for 50 years, at that up to 60% of the debt may be cancelled under certain conditions (big family, successful running of the farm, completion of the building of the farm in two years) etc. Side by side with creating new homesteads social and technical infrastructure must be developed in these areas as only all-sided regional development can create reasonable working and living conditions for people.

To sum up, we can say that the most general aim of the new regional policy in Estonia is to level the location of productive forces and social-economic development in Estonia. To achieve this the growth of underdeveloped regions should be accelerated by means of deconcentration of population, industry, agricultural production, and services.

As to their effect the measures of realizing regional policy may be stimulating, compensating, and restrictive. Experience of other countries has shown that stimulating measures are the most efficient while restrictive ones are the least successful. Among the former regional tax allowances deserve mentioning; as an example of the latter differentiated migration quotas established in 1990 might be mentioned. However, the establishment of various special-purpose funds to stimulate the creation of new homesteads, the development of enterprising and social sphere etc. can be expected to be one of the most efficient ways of pursuing regional policy. As Estonia is a republic that has just started to fashion her regional policy, it is extremely important for her to get acquainted with the know-how of other countries accumulated over decades.

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TERRITORIAL-ADMINISTRATIVE REFORMS IN HUNGARY

ZOLTÁN HAJDÚ

Introduction

Public administration is above all an issue of power and politics, in Hungary the content and change of the territorial system of public administration has been dependent upon the prevailing (external and internal) power relations. Beyond the determination by the historically evolved power relations and interests the territorial-administrative division also carried national peculiarities and the reforms or reformative attempts of the territorial division were interdependent with the historical changes of the conceptions of state and nation. In the case of Hungary the changes of the territory and structure of state and the modifications of the confines of the state were of particularly great importance. The territorial administrative division is a structure encompassing the entire space, that is each point of the country forms a part of the settlement and territorial management in a regulated way. The relationships between the administrative levels are regulated unambiguously. The economic units are an important element of the territorial administrative division. The reform of the territorial administrative division has an impact upon the economic, social, political, territorial and settlement network processes.

The administrative reforms covered an extremely complex group of (power, political, economic, social, administrative, personal etc.) issues, and – albeit not always – one of the elements of the reforms is the change of the territorial division. The conclusion of *Beksics, G.* according to which „...there are hardly any reforms which could affect the Hungarian politics and society more deeply than just the reform of public administration”, still holds true today (*Beksics, G.* 1891. pp. VII-VIII).

Public administration functions as a system, the settlement, regional and central administrations are organically connected, nevertheless I am going to dwell upon the problems of the territorial-regional reforms (that encompass a district, a county or several counties) only.

History of the Hungarian state and its impact on the territorial structure of public administration

After the establishment of the Hungarian state historical Hungary shortly became a state of imperial structure encompassing territorial units of different legal status. Under public law the following territorial parts could be distinguished: a) the inner country; b) the parts invested with administrative autonomy and complementing the body of the inner country (Transylvania, Slavonia); c) the occupied provinces that were not integrated into the body of the country (Croatia, Dalmatia); d) the countries governed by their own elected princes yet having allegiance to Hungary (Bulgaria, Wallachia). The individual territories could get under „foreign rule” temporarily, they could obtain autonomy, but according to the Hungarian public law the Hungarian Holy Crown asserted its rights under all circumstances, even if virtually (*Edelényi-Szabó, D. 1928, Molnár, K. 1929, Tomcsányi, M. 1942*).

The most important territorial unit of Hungarian public administration is the county. The roots of the system of counties go back to the period of the establishment of the Hungarian state. The founder and organizer of the state, King Stephen I, developed the royal counties in the interest of the management of the royal estates and the performance of the related economic, military and administrative tasks. (It is extremely difficult to reconstruct the original division into counties. The different researchers identify different numbers of counties and describe the „original” system of counties within different territorial order (*Győrffy, Gy. 1977, Kristó, Gy. 1988*).

From the 13th century the royal county was converted into the feudal self-government of the nobility, it became an autonomous administrative organ, and from this time on the counties got a role in legislation with an increased significance in jurisdiction as well.

By the end of the 15th century the county boundaries had become fixed, but even after this there were still uncertainties with regard to the status of large territories. The average area of a county was about 4000 km² at the end of the 15th century, but also counties with dwarf area (Torna 780 km², Esztergom 935 km²) and large area (Bihar 11, 565 km², Temes 11, 880 km²) came into being.

In the 15th century the internal territorial division of the counties took place and the districts were developed gradually, then in some spaces territorial units within the districts came into being as well. The districts were transferred organs of the counties and did not have autonomy.

After the defeat at Mohács in 1526 the historical state was partitioned first into two, then into 3 parts. The territorial division into counties remained unchanged in the hands of the Hapsburgs in Royal Hungary and in Transylvania, which had become independent, while in the occupied territories the Turks made rearrangements in accordance with their own military interests and spatial approach. The nobility that had escaped from the territories occupied by the Turks maintained the county apparatuses or rather organizations in some cases and were temporarily

united with the counties that belonged to Royal Hungary (Zala, Somogy, Heves, Outer Somogy) making use of its feudal privileges thereby.

By the early 18th century the majority of historical Hungary was liberated from the Turkish occupation. The Hapsburg dynasty starting to rule again did not restore the former territorial division in all the spaces.

In 1785 Joseph II, who did not have himself crowned as a Hungarian king – to escape the obligation of swearing to respect the Hungarian constitution –, made an attempt at establishing the Hapsburg empire. On the territory of historical Hungary he abolished the constitutional independence of Croatia and rationalized the division into counties (fusions, corrections of county boundaries) and enclaved 10 public administrative districts between the counties and the central government. The division into counties and districts was rational in various respects, but it disregarded the territorial interests of the nobility and wanted the whole of the public administration to be at the service of the foreign power ambitions, which led to the strong resistance of the counties and the nobility. The counties presented a united front against the „foreign” centralizing and modernizing endeavours in the name of the Hungarian constitution. With the death of Joseph II the reform of the public administration conceived in the spirit of absolutism failed, the former territorial and administrative structure was re-established and from this time on the counties took better care of their territorial integrity.

The bourgeois revolution of 1848 eliminated the feudal system of the counties, and in fierce debates (centrists–municipalists) it made provisional arrangements.

After the suppression of the war of independence the recovering Hapsburg absolutism nullified the constitutional independence of Hungary. The country was divided into 5 crown lands divided into provinces which in turn were divided into counties consisting of districts. The public administrative structure of 1850–1860 was refused by the majority of the Hungarian nation, a great part of the nobility having held office put up passive resistance, therefore, most of the administrative staff was imported from Austria, which further increased the resistance against public administration.

Modernization of the public administration and progress in the period of the dualist monarchy

The relationship between Austria and Hungary as determined by political law was regulated by the Austro–Hungarian Compromise, then the internal relations of the historical Hungarian state were settled by statutes. The union of Transylvania with inner Hungary was re-enacted and as a result of the so-called Croatian–Hungarian compromise, Croatia–Slavonia and Dalmatia were annexed to Hungary as provinces with local autonomy, while the only port of Hungary (Fiume with its environs) was returned as a separate entity.

Within the Austro–Hungarian Monarchy, which had come into being as a result of external–internal power and political compromises, the internal structure of

Hungary with its relative independence was rather complicated. In 1867-1918 the so-called Hungarian empire consisted of 3 parts regulated by public law, and a Military frontier still existed along the Hungarian-Turkish border.

After the restructuring of the state the modernization of the internal public administration followed. In the political environment that bore the marks of liberalism, jurisdiction and public administration were separated, the establishment of the local self-governments of the settlements followed the Austrian model, but very fierce debates started concerning the functions and territorial system of public administration.

At the time of the population census of 1870 in inner Hungary there were 49 counties, 1 province and 4 districts; in Transylvania 8 counties, 14 boards, 4 provinces, Fiume and its environs; in Croatia-Slavonia 7 counties; at the Military frontier 15 thousandths; altogether 103 units can be regarded as government-boards of regional character. The regional government-boards were divided into 666 districts or regional units of equal status.

After heated debates territorial regulation by government-boards of regional character – that is not a real, substantial reform – was introduced in 1876. In Transylvania and the Great Hungarian Plain significant changes took place, while the other parts of the country were left practically unchanged. The territorial division was homogenized by the elimination of the regional-ethnic separations, autonomies of feudal origin, and the system of counties became uniform all over the country. The boundaries of the counties were rationalized, several enclaves and exclaves were abolished.

After the settlement of 1867 the county boundaries became fixed, in which social, economic, political and ethnic considerations all played a role. After 1876 only the incorporation of two dwarf counties (of Szörény in 1880, Torna in 1881) and the annexation of a few villages occurred. On the territory of the inner country 63 counties, Fiume and its environs, in Croatia-Slavonia 8 counties performed the tasks of territorial public administration.

As opposed to the rigidity of the county boundaries, the division into districts was characterized by dynamic changes. As compared to 1873 the number of the districts was reduced from the 685 of 1873 to 473 by 1886, then it was raised to 513. The changes of the division into districts followed real settlement processes in several places.

Changes of the Hungarian territorial-administrative division between the two world wars

After the defeat in World War I, profound changes occurred in the situation of the country, its state, political life and territorial structure. The Austro-Hungarian monarchy disintegrated, extensive territories of historical Hungary were first occupied, then annexed by means of the peace treaty of 1920. The territory of the coun-

try was reduced from 325,411 km² to 93,073 km², its population decreased from 20.8 million to 7.99 million.

Under the impact of changes in the state confines the administrative territorial division of the country also went through a profound change. The integrity of only 10 counties was left unchanged within the new national boundaries, 25 counties of smaller or larger area were mutilated. The new national boundaries cut across districts, towns and villages as well (*Figure 1*).

Between the two World Wars the ideology and political conception of the Horthy-regime was determined by conservatism as opposed to the liberalism of the previous period, in its late years even open fascist dictatorship appeared, the restriction of the powers of the self-governments as well as the nationalization of public administration became a determining process.

In 1928 the mutilated counties along the national border were fused in the spirit of „provisionality”, thus the number of the counties decreased from 34 to 25. The division into counties was extremely disproportionate with regard to both territory and population and became rigid again after 1923.

The division into districts remained relatively mobile, even between the two world wars it had greater adaptability, in several cases new processes were induced by the change of the division into districts. Heated debates arose about the widening of the public administrative functions of the districts and about providing them with a self-governing character, but it did not occur.

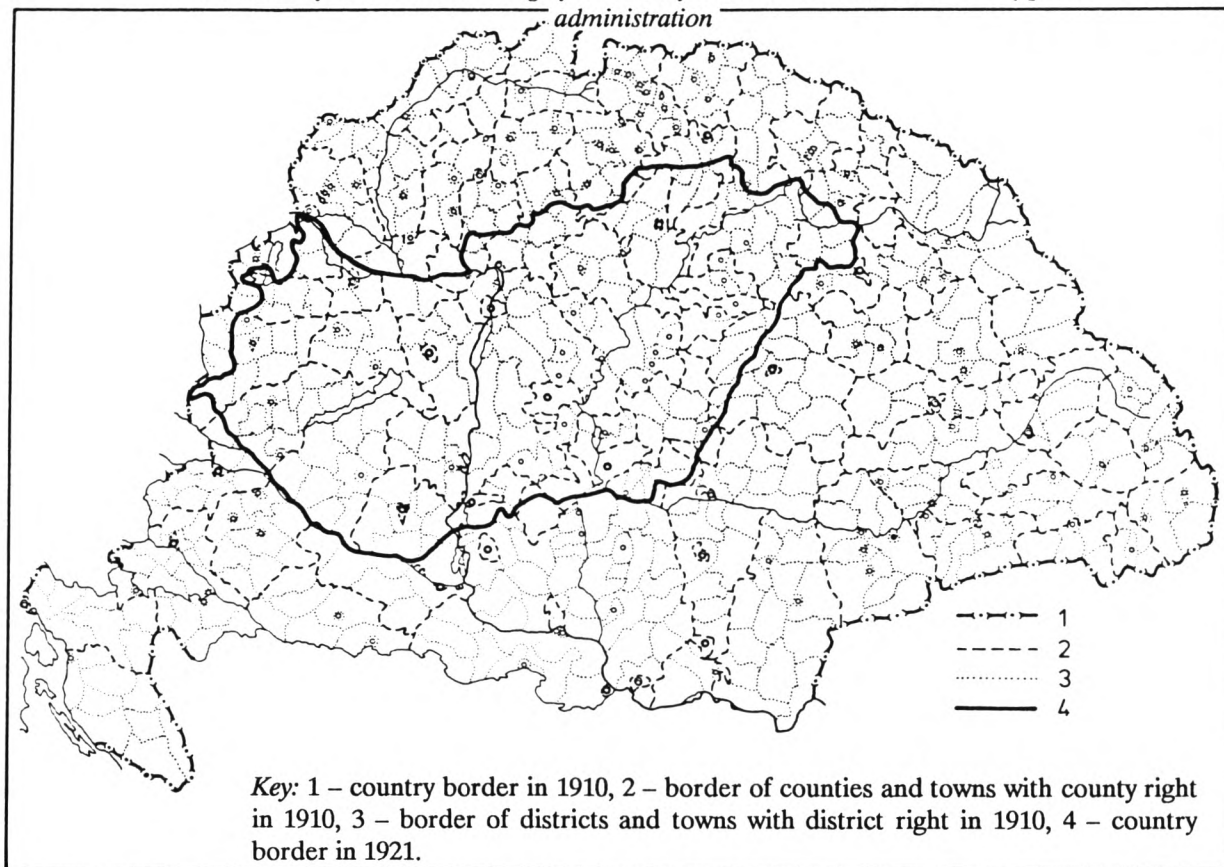
According to the changes of the national boundaries during World War II (on November 2, 1938, as a result of the 1st Vienna Decision, part of Upper Northern Hungary, in March, 1939, Sub-Carpathia; on August 30, 1940, as a result of the 2nd Vienna Decision, Northern Transylvania and in April, 1941 part of the territories having been annexed to Yugoslavia got under Hungarian suzerainty), the territorial administrative division was also transformed (*Table 1*), but the armistice agreement restored the Trianon treaty frontiers.

Table 1
Number of districts and counties in Hungary between the two World Wars

Number of	1920	1921	1925	1930	1935	1938	1939	1940	1941	1943
districts	163	162	155	154	149	172	184	246	264	264
counties	34	34	25	25	25	31	34*	44*	44*	44*

*With three administration agencies of Sub-Carpathia.

Figure 1
Dismember of the historical Hungary and its influence on territorial division of public administration



Reforms of the territorial division of public administration from 1944 to the present

From the political and power aspect the period extending from 1944 to our days can be divided into three periods and several sub-periods aspect. These periods also have consequences with regard to public administration, but they do not coincide precisely.

The period between 1944 and 1948 bore the possibility of creating a public administration system with democratic self-governments. The Provisional National Assembly formed in Debrecen on 21st of December, 1944, started the reorganization of the country. In January, 1945, the government already regulated the organizational and functional framework of public administration. The government decreed the reorganization of the self-governments and reckoned with them as potential basic elements of the new democratic public administration of the future. As an amendment to the January decree, the regulation issued on April 26, 1945 – with smaller-greater modifications – became the basic document of the functioning of the Hungarian public administration until the introduction of the system of councils.

In June, 1945, the government also regulated provisionally the territorial division of public administration. Above all, the mutilated counties along the frontier were fused again, and some matters of annexation having dragged on for decades were ended at last upon the initiative of the population, and territorial changes carried out by the local self-governments were approved by the government.

The period until 1947 was characterized by the central approval of the settlement and regional initiatives coming from below, while after 1948 the assertion of the central will strengthened in this respect, too.

The Constitution of 1949 recorded the final result of the power struggle, adapting nearly uncritically the Soviet economic, social, political structure and system of institutions. Administratively the change of regime resulted in the elimination of the administrative system based on self-governments and in the introduction of the system of councils.

The territorial reform started with the settlement of the county boundaries. The approach taken as a point of departure was that the county boundaries should be interfered with only to a minimal extent and at the fewest possible points. In the course of the reform the number of the counties was reduced from 25 to 19, the conspicuous disproportionateness of the territories and the population was eliminated without turning the territorial division of the country „upside down” (*Figure 2*).

As compared to the former situation, a substantial change having taken place in the case of the districts was their merging into the hierarchy of the councils, albeit the sweeping territorial reform was not an objective here either. The number of the districts decreased from 150 to 140 as a result of the elimination of 16 districts and the formation of 6 new districts.

Figure 2
Reform of territorial structure of counties in 1950



Key: 1 - country border, 2 - county border in 1949, 3 - county border in 1950, 4 - county seat.

From 1950 to our days the system of councils itself has gone through a vigorous change, gradually adjusting itself and approximating to the earlier Hungarian traditions. This process can be observed in several respects in connection with the Council Acts of 1954 and 1971. In 1971 there were attempts to introduce the character of self-governing into the existing system of councils, but the results were ambiguous.

In the period of state socialism a peculiar situation arose in respect of the territorial system. The reforming of the territorial division was planned or rather attempted several times (in 1953, 1956 and 1971), but the political environment always changed and in the new situation the territorial structure was not interfered with either, out of caution. Regional territorial units (covering several counties), that is, the regions were not formed because the division into counties was almost untouched (from 1950 to our days merely the county division of 1 district and a few townships has been changed). At the same time the county functions have been greatly transformed as compared to 1950.

During this period the districts were mobile regarding both area and functions. Concerning function their role and significance enhanced until the mid-sixties, but subsequently their importance rapidly declined and their functions were deprived of meaning. In 1971 the district council level ceased to exist and further on, until their reappearance in 1984, they were functioning merely as the offices of the county councils.

In 1969 the category of villages *under towns administration* was introduced by way of an experiment. The essence of the municipal administration of villages construction was that a hierarchical relationship came into being between the village and town councils. From 1971 on this structure was transformed into that of town environs. In *the town-surrounding construction* the formerly hierarchical relationship between the village and town councils was abolished.

If we take a review of the changes of the administration of districts and city environs in the period between 1950–1980 (*Figure 3, Table 2*), we can see that the districts were losing ground with an increase in the number of town environs.

The „race” between the two territorial units ended with the victory of the city environs. From January 1st, 1984, the districts were abolished, their place being taken over by the overall system of the town environs. At the time of the reorganization 139 towns or townships of town rank were formed. With the exception of 4 (Budapest, Százhalombatta, Hajdúböszörmény, Túrkeve) the towns were assigned a role in the new administrative construction, the administrative districts were formed around 105 towns and 34 townships of town rank. The number of the medium-sized town environs became determining, but quite a few town environs with a small or large area, with different number of inhabitants and settlements were formed as well (*Figure 4*).

Figure 3
 Settlements playing roles in the administration of districts or town-surroundings
 between 1950-1980

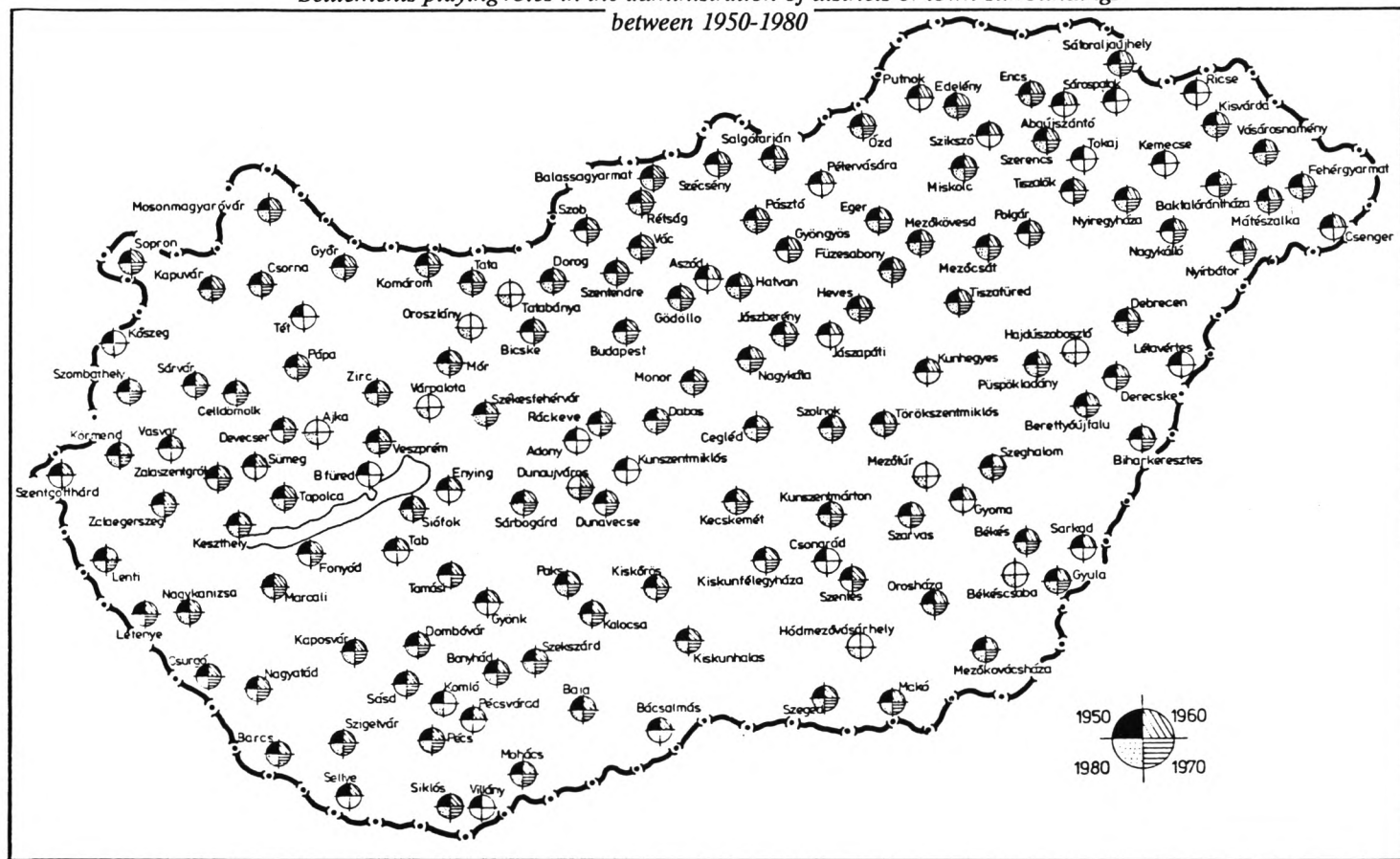
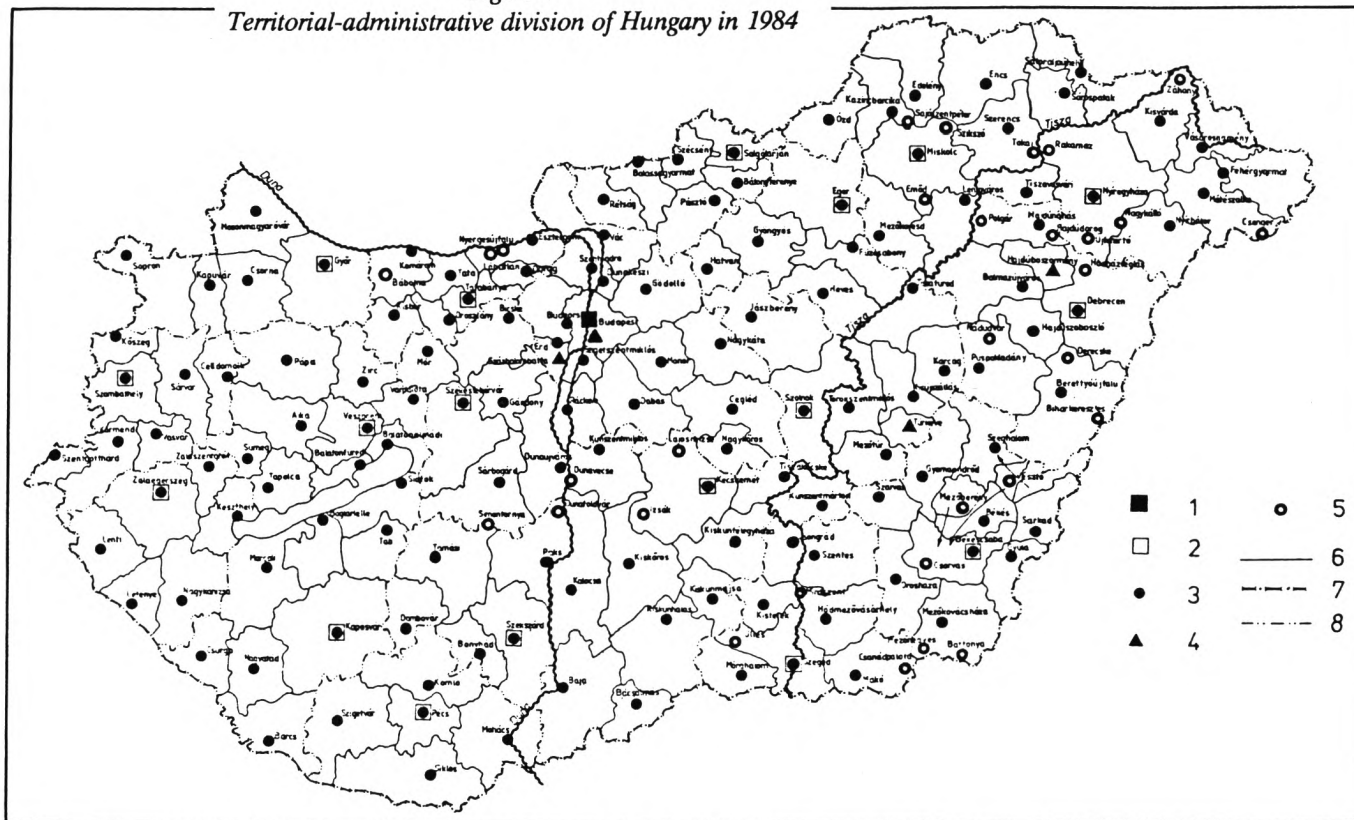


Figure 4
Territorial-administrative division of Hungary in 1984



Key: 1 – capital city, 2 – county seat, 3 – centre of town-surroundings, 4 – town without town-surrounding, 5 – municipality under county government, 6 – border of town-surrounding, 7 – country border, 8 – county border.

Table 2
District – town-surrounding division of Hungary between 1950–1980

Number of	1950	1960	1970	1980
settlements	3,223	3,273	3,224	3,122
– towns	54	63	73	96
– villages	3,169	3,210	3,151	3,026
districts	140	128	107	83
town-surroundings	–	–	2*	49
towns from the seats of districts	42	44	50	61
villages from the seats of districts	98	84	57	22
towns only with district	42	44	50	33
towns only with town-surrounding	–	–	2*	21
towns with both districts and town-surroundings	–	–	–	28
towns without districts and town-surroundings	12	19	21	14

*Kapunár 4, Hatvan 3 villages under town administration.

The system of city environs was admittedly functioning by way of a temporary solution and it was to play an important role in the mediation of county administration only until the conditions of the direct county administration of the communal councils were established.

The towns gradually switched over to the direct administration of the townships. Since January 1st, 1990 with the exception of 3 counties (Baranya, Heves, Pest) all the local councils have been directly managed by the county councils.

On January 1st, 1990 the country was administratively divided into 19 counties, 1 capital, 8 towns of county rank, 157 towns, 277 townships and 2,577 villages. 17 out of the town councils were functioning as joint (town–village) councils with 50 co-villages. In Baranya 5, in Heves 4, in Pest county 13 town environs were functioning.

The political crisis unfolding more and more vigorously from 1989 and the change of the regime was a short but utterly new period. The internal crisis of the Hungarian Socialist Workers' Party, then the termination of its hegemony, its restructuring and the ousting of its successor party to the periphery all created a new situation for the system of public administration still functioning within the framework of the former party state.

The administrative reform conception declared in July, 1989, regarded the reconstruction of self-governments as a possibility of the renewal of the Hungarian public administration.

In the new situation, which emerged after the parliamentary elections of 1990, the former conception of self-government was enhanced by new elements and ambitions, and after a very fierce clash of interests a solution with a compromise was born. From the aspect of our theme it is important that in the new political deploy-

ment the interests asserted themselves in favour of the preservation of the county as a self-governing level.

At present it appears that in the administrative reform – like several centuries before – the possibility of the radical change of the division into counties was taken off the agenda once for all. A radical territorial reform would have been imperative only if the county level had come into being as a result of bottom-top organization and if every local self-government affected ought to have voted, selected, or expressed its opinion concerning the issue within what framework of self-government it saw its own participation to be economically, socially, politically and emotionally consolidated.

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CRISIS REGIONS IN HUNGARY AND POSSIBLE WAYS OF THEIR DEVELOPMENT

LÁSZLÓ HRUBI

Uneven regional development is the natural subject of regional policy, since regional economic growth and the spatial evolution of the circumstances of life take place in a differentiated way. The natural, economic, social and other conditions of regional growth and development are continuously under- or overvalued according to the general socio-economic development trend (on a world-wide scale, with regard to groups of countries or characterizing a given country or a great region). The revaluation of the regional endowments and conditions gives rise to forced global or structural adjustment. Namely, the regional disparities represent at once the driving forces of regional growth and development and the possibility of losing contact with the main development paths, possible lagging behind or the emergence of ever deepening crises.

At the same time the differentiating effect of disproportionate regional development asserts itself under the rather limited spatial mobility conditions of the natural and economic resources and the population, regularly giving rise to tensions between the social wealth and a population of very conservative regional structure and the growth poles of that of dynamically changing spatial structure. The two basic ways of alleviating this tension are the following:

a) influencing the uneven development itself, restricting its effects, moderating it by using state or local regional policy instruments (methods and mechanisms aiming at balanced regional structures),

b) the adjustment of the regional potential through structural changes, or, in critical cases, through restructuring, following a growth/development model built on new bases.

Between the extremes of one or the other method regional policy generally attempts to apply the possible or necessary combination of the two. The range of action of regional policy to influence the development processes and effect mechanism in a given period and under certain conditions, or when it is compelled merely to strengthen regional adjustability – is a matter of constant professional debate. And the answer to it is the actual course of regional policy materialized in the system of objectives and instruments.

Crisis of the economic development and regional policies

During the past longer period regional development in Hungary (and in the socialist countries, as a rule) was determined by the economic development policy in the narrow sense to an incomparably greater extent than by the regional and settlement development policy with its weaker effect mechanism and restricted authority. The economic development policy had almost exclusively a sectoral approach, thinking mainly in terms of institutions. Its entire planning, accounting, regulating, incentive and administrative etc. system was built upon this principle, asserting it. It could not handle or integrate anything that had a different character, entrusting it to the partial policies which had a complementary character and independent scope within limits. The possibilities of coordination, agreement, in brief, active reaction were ensured formally.

The economic development policy, which was aimed at extensive, quantitative growth and was organizationally and administratively concentrated strictly on internal priorities, resulted in a polarized regional structure: at one end, at certain spatial points, advantages were being accumulated, while at the other end, disadvantages were on the increase. What is more, the existence of the majority of more advanced regions – as it turned out later – was on a very fragile basis. Namely, the central element of the strategy was industrial development as a growth pole which was territorially greatly concentrated on the cities, and individual regions were given priorities, upon which the development of the tertiary sector depended as well. As a consequence of this, several region came into being in Hungary where significant industrial bases were formed. At the same time this industrial development was a one-sided process restricted to a few large-scale industrial plants, creating too much dependence between the region and the development of the industrial potential.

Regional-structural one-sidedness, exaggerated capital and organizational concentration, the lack of market relations, a low degree of adjustability characterized the majority of the „growth poles”. Undoubtedly, the matter under discussion is not so much a consequence of a distorted regional policy, as the regional projection and appearance of the crisis of a general economic mechanism (model).

The economic policy (and the regional policy within it) considered so far has come to an explicit crisis in our days in spite of the fact that the latter was never integrated into the macro-level economic policy which almost exclusively determined the socio-economic processes and was articulated only according to sectors. A peculiar regional outward form of this crisis – besides several regional problems – is the appearance of the depressed zones, or economically backward regions (or, in a general form, regions with cumulative disadvantages).

In the wake of the parliamentary decision of 1985 on regional and settlement development from the mid-80s only the development of the economically backward areas – or rather the continuation of this process – could be successfully included (practically sneaked in) within the framework of the five-year plan which determined the socio-economic development, no doubt, only by way of such a minimal

programme about which it was obvious right at the very start that not only would it be unable to achieve the targets but it could not even approximate them on the long term.

This programme was launched mainly by the recognition of the social problems (e.g. employment difficulties) involving the scarcity of mobilizable funds, at the same time the sharpness of the tensions politically also required rapid results. The originally complex regional approach and logic were simplified into an action plan creating jobs in the course of implementation, in spite of the fact that the requirements of regional restructuring, efficiency, perspectivity etc. were still present.

Characteristically enough, the employment difficulties provided the point where the matter of the economically backward areas coincided – and mixed – with the necessity of the restructuring of the depressed zones which was understood only some time later, but rather frantically.

The fact that the employment problems had such a primary role in both crises is, so to say, a common denominator and no accident: it is a natural consequence of the still existing formal regional policy. Namely, the artificial separation of regional policy from economic policy has survived, within regional policy itself the management and planning of the regional economy are separated in the practice of settlement development as well as in terms of the institutions. Their connection at the level of regional administration is difficult to interpret and supposedly realized in a coordination function which is hardly ever translated into practice.

Although in principle regional administration is evolving towards self-governing, settlement development is more and more closely related to the development of the economic sphere and its changes at all the levels of regional division, it hardly has any decision-making, regulating, interest-asserting, in a word, influencing powers over the regional economy, with regard to the reproduction process regional policy is narrowed down to settlement development of an accumulative-consuming type. In its relation to economic policy as an independent partial policy it is able to function by way of a simple feedback without being able to implement or incidentally force out the necessary regional corrections. It is common experience and a manifestation of the peculiar regularities of the socialist countries that this feedback function induced some kind of intervention on the side of the social-economic administration, when the regional-economic tensions were revealed on the surface of the phenomena related to living standards, employment etc., that is, in politically tender areas, too. What followed from this is, unfortunately, still true in our days: intervention has aimed at the quick remedying of the surfacial outward forms without trying to correct the mechanism hidden behind them.

This attitude is concealed behind the development conception of the economically backward regions, too. Namely, on account of objective reasons the majority of these regions, settlements fell behind the main development tendency, being special regional representatives of the social periphery and the whole society is obliged to assist the residents, social outcasts of these regions out of social responsibility characterizing the humanitarian society, naturally within the limits of the society's load-bearing capacity.

The social motive of the programmes concerning the backward zones rises from this conception (as opposed to the economic-political approach which is more realistic on the long term) as well as from the subsequent deformation of the system of instruments and implementation which was bound to take place.

For all practical purposes the problem of the economically backward areas consists in the following: in the spatial structure of the functioning of the economy and society significant contradictions have accumulated, a considerable part of the regional financial and intellectual resources are practically excluded from the social reproduction process or they participate not according to the endowments: the trouble is that these regions do not produce income, at the same time they can survive only by means of constant subsidization within the existing system. Evidence of this is demographical erosion, employment difficulties, lower standards of living etc.

A long-range development programme has to create the possibility of regional-economic development in the backward regions, too, that is, the ability of a differentiated – in terms of regions and settlements – even selective regional economic growth and self-evolution. In comparison the temporary remedying of the present troubles in employment, living conditions etc. are issues of secondary importance – although undisputably an important and tender area, too. The cause-effect relation is similar also in the case of the depressed zones. Through regional economic restructuring the purpose of intervention should be the creation of a perspectively efficient economic potential based on the regional division of labour, being diversified and continuously adjusting itself to the changes of the market relations. In this respect it is an issue of secondary importance again, what employment difficulties are raised temporarily by the reductions in the labour force of the organizations to be liquidated or „streamlined”.

In strategic thinking the overwhelming presence of the employment problem, which is the „common denominator” of two different regional problems, is dangerous because it deprives the strategy of its essential element, its perspectivity. Latent or effective unemployment can be found in a relatively cost- and market-sensitive economy with restricted resources so long as the economy is characterized by recession, and even in the case of lastingly competitive structural elements there is no indication of significant economic boom. Consequently, the employment/unemployment problem can be disguised at best (only temporarily) in the present macroeconomic or regional economic structure but not eliminated by any means.

The economically backward areas or depressed zones are the critical regions of today's regional policy. The proportion of the zones in critical situation is very significant both within the population and the economic potential. It is difficult, among others, to give a precise number because it depends on the interpretation of concepts. Probably the number which already appeared in a separate way in the decisions of the Parliament and the government was only minimal. According to this, 19% of the Hungarian settlements with an overall population of 450,000 falls under the category of economically backward areas. The problems of the depressed zones are present in the most acute form in the Northern Hungarian industrial zone (Miskolc with its environs) and in Southern Transdanubia (Pécs with its region).

The economically backward areas are overwhelmingly made up of rural agrarian zones where apart from the low income-producing agricultural output there is hardly any other economic base, the infrastructure is underdeveloped and incomplete, the erosion of the population (migration, superannuation, other structural distortions) is significant, the regions are in a peripheral situation, most of the settlements are villages with a population below 500.

The depressed zones are, above all, heavy industrial centres (metallurgy, mining etc.) where lasting recession can be predicted even concerning the complementary industrial branches. Since the regional-economic structure was developed according to the requirements of the former development model, adjustment to the changed environment is accompanied by drastic restructuring, significant – hopefully temporary – unemployment and other grave social and economic problems.

These crisis zones do not simply imply regional, social or even only economic problems, but a tender political issue as well. Namely, under the conditions of a fledgling democracy – as shown by the example of the highly developed European countries – equal opportunity is a category of human rights. Yet in Hungary the main cause of unequal opportunity for the citizens consists in the different places of residence.

Possible ways and means of the development of critical regions

In connection with the catching up of the economically backward areas and the restructuring of the depressed zones the most uncertain point in the shaping of the regional (county) policy and strategy is, paradoxically, precisely the role of the local-regional level and the local-regional councils with their possibilities and system of tools. This uncertainty is manifested not so much in the formulation of the tasks and requirements, that is responsibility, but rather when we raise the question of the theoretical freedom of local-regional decision-making and ask to what extent this theoretical decision-making freedom can be reduced by the system of tools at command. The other side of the question is what the extent of the division of labour can be between the national, local (settlement) and county levels of regional policy and strategy.

The crisis of the mechanism of economic and regional policies has created a rather absurd and puzzling situation in the management of the regional crisis phenomena.

The regional processes have been determined by a decisively sector-oriented central economic policy in which the regional interest and principle could hardly take root. Within regional policy the management of the economic sphere and settlement development got separated, county and settlement policy and authority were practically restricted to the development of settlements.

In the emergence of the regional crises – of the problem of the economically backward regions and depressed zones – the macroeconomic processes and central decisions played a decisive role, so much so that by now the accumulation of the

regional tensions have grown too big for the present regional and settlement administration.

The absurdity and confusion of the existing situation culminates in the fact that in the solution of the regional problems precisely the regional and local levels have the narrowest scope and most limited decision-making possibility within the present framework of institutions and regulation. The development of the particular regions, their removal from the deadlock simply cannot be realized without decisions taken at the government level. This can be attributed only partly to the fact that these issues have wider spatial and regional relations, and what is more important, today there is a lack of an autonomous regional administrative system or it functions only partially. Obviously this phenomenon which became well-known in the past (local ability being dependent on central decisions) may rise the illusion of past solutions in the people, reviving the myth of the omnipotence of central intervention and injections. Yet it is clear that central management, the „state” can and does undertake merely to alleviate tensions of social nature only in connection with both the economically backward regions and the depressed zones, being able to undertake only the tasks of short-term crisis management but not the structural problem of the economy of a particular region, since it has to face macroeconomic restructuring.

The long-term development and restructuring of the backward regions and depressed zones are decisively the task of administration at the regional and local levels (that of the local government). Central support may be directed, on the one hand, directly at finding an outlet for the sharpening short-term tensions, their social-political moderation, on the other hand, indirectly at the creation of the framework and system of tools in which the scope of the regional and local levels required for the solution of the tasks is established. The regional and local administration – according to the division of labour formed in the process of development – has to obtain the possibilities of incentives, subsidization and regulation, that is, influencing, as well as those of competence supported by real economic bases, in consequence of which the launching of the economic growth and restructuring at the regional level become manageable for these regions.

The transformation of the institutional framework, system of tasks and instruments in regional and local administration is likely to take place as a consequence of the reforms under way, although in a form which is difficult to predict.

From the aspect of active impact and influence the outlines of a regional „self-government-friendly” future model might be the following:

- settlement (local government) ownership, at the same time interestedness in management and the financial results,
- real management-enterprising possibility and ability for the councils (economic self-government),
- independent regional economic regulation in accordance with the responsibility of the local-regional policy and within certain limits (possibilities to reduce or enhance all kinds of tax-types forming council revenues within certain limits),

– regional system of banks and financial institutions (this is considerably different from the present subsidiary network of commercial banks) and a varied system of funds and foundations, development associations companies etc.,

– regional business and information infrastructure with the complete lifting of state monopoly.

From these a lot of elements already exist either in theory or in practice, or they may be established.

Regional economic development, the appearance of new structural units would be greatly assisted by business infrastructure provided in the form of service (first on a non-profit but later on a business basis by all means). This range could be widened by a variety of social-corporate institutions, financial development companies, foundations and funds (private or public, domestic and foreign combined), associations, societies, in brief, by everything that has proved useful in revitalizing regions in similar situations in other parts of the world. The international relations or informal links of the counties and settlements might also serve as a means, whether through obtaining experience or forming cooperation in the field of particular developments.

A separate issue in the system of business infrastructure is the system of regional banks and financial institutions. The existing agencies of commercial banks are not able to finance local-regional business ventures at the moment and this is a significant obstacle. A possible (temporary) solution might be the widening of the banking services of the mutual savings banks, on the long term, however, it seems expedient to establish banks for development and investment for the financing of regional business ventures. The great demand for business venture funds (which exceeds the possibilities many times over) shows that there is significant scarcity in this field. There is much to be said for the establishment of a regional bank for investment and development, if we consider that the system of subventions and subsidies is easy to survey and supervise, at the same time it would operate within the normal banking framework with guarantees of returns, which may not be ensured within the framework of administrative governing and managing institutions – in spite of the best intentions. The different formations of subsidies and subventions should not be concentrated by all means, rather they should be converted into transactions supported by a uniform economic-financial base as to their functioning, requirements and guarantees of profitability, or they should be diverted in this direction. Calling for tenders, allocation and rational utilization in such a system would probably function with a higher degree of efficiency. Regional banks, in an optimal case, should be such independent regional joint ventures in which all the significant organizations and institutions directly interested in or responsible for regional-local development would participate as part-owners depending on their financial possibilities.

Both the elimination of economic backwardness and restructuring required in the depressed zones and the actions of the companies and entrepreneurs can be stimulated by specific regional forms of grants and subsidies. These include – without claiming to have exhausted all the possibilities – the following:

- regional entrepreneurship (business) insurance system,
- accelerated amortization,
- VAT-allowance for small and medium enterprises for a definite period,
- reduction of the state social insurance rates of people employed by new workplaces,
- credit and interest rate allowances,
- special regulation of cooperation (e.g. cross-border or other international) relations.

The forms under discussion can be established within the present system only and exclusively by means of central government decisions, albeit the regional-local information and interestedness are of greater significance. The majority of these forms raise the question of regulation, therefore these would be suitable elements to become objects of the decentralization of the above mentioned regional regulation competence and regulation itself.

The role of industrial development and infrastructure

The tasks of the development, restructuring of the economically backward regions and depressed zones are focused on two spheres: industrial development and the building out of infrastructure, therefore these two branches have and will (may) have a role of particular importance.

Although the principle repeatedly proclaimed for a long time has not been so much translated into practice, the experience concerning the depressed zones has proved again that in comparison with the earlier regional policy a decisive change should be implemented to enable the regional economic potential to evolve from the economic-industrial sphere itself: it may not be replaced by central or local decisions or the assignment of tasks in the field of economic policy. In other words, the transformation of the industrial structure may take place only on the basis of the movement of the enterprise sphere on business venture grounds. Every central or local regional intervention is of external character, and its task consists in influencing the regional and sectoral movement of the working capital by means of forming the various grants and subsidies as well as regional receptive readiness and the environment. This function is, however, absolutely necessary under the existing sectoral-regional structural relations. In summary, the basic task of regional strategy is the stimulation of business ventures through regulation.

Consequently, in the shaping of regional development policy it is not the sectoral, organizational priorities which are primarily in the foreground – as compared to the conceptions of the earlier period – but the general objectives of the economy and regional economic development which is deducible from the requirements of regional economic growth. Even the long-term regional industrial policy influencing structural adjustment may not be responsible for assigning the production activities to be developed or reduced, or the groups of commodities, organizations etc.,

neither for deciding which manufacturing, economic branches, production lines, organizations to support in the course of the developments and reforms. The task consists in formulating the system of development norms in accordance with the regional interests and endowments, or in other words, the system of criteria, the implementation of which ensures in principle economic restructuring and development in the right direction and at the right pace, irrespective of the sectoral, organizational or product structure. In this respect the regional (county) development requirements are chiefly related to the path of the whole economy deemed strategically necessary. To put it simply, the question of „what” has to be decided in the economic-enterprise sphere – as determined by the market relations –, this element may provide only information of external, prognostic character at the level of regional policy. It is the question of „how” which is decisive for regional policy, within this primarily the grasping of those momentums which are of basic importance for regional growth and thereby they may become targets of influencing, stimulating and supporting the regional economic sphere.

In the formulation of the regional industrial development policy the desirable development trends can be outlined according to the requirements below:

- vigorous orientation towards the processing industry,
- maximal utilization of the advantages of the regional division of labour,
- building out of a background industry,
- technological development as the prime mover of industrial development,
- real market orientation ensuring the ability of continuous adjustment,
- production and organizational diversification ensuring ability of continuous structural adjustment.

A profound change similar to that of industrial development policy is required in the infrastructural development policy as well. The backwardness of the infrastructure has accumulated by now to such an extent that it is one of the main obstacles of the development of both the whole economy and regional units. From the aspect of the modernization of the economy such basic requirements as telecommunications, transport, motorization and the energetic systems are rather underdeveloped by European standards, and these bottlenecks block territorially the unfolding of flexible enterprise management and business ventures.

In the development of the depressed zones but even more so in that of the economically backward regions the recognition of the priority of infrastructure is a basic requirement. With regard to the tasks and possibilities outlined above one has to assume that it can exist only within a background, a „vascular system” of tolerable standard. Namely, it is not sufficient to restrict our approach to development, investment and establishment, continuous and lasting functioning and profitability also form a significant element. The moderate long-term success (or failure) of the earlier regional development programmes shows that there is no point in thinking in the vein of „temporariness” because the contradictions will be reproduced.

The main dilemma of the present period, the contradiction between the long term and the short term is embodied by the infrastructure itself. So long as the ac-

tual or imaginary „forced path” cannot accept the long-term interests, the infrastructure-syndrome will remain unsolved.

The development and restructuring of the economically backward and depressed zones are required by the whole society and economy, the rehabilitation or catching up of these regions has no alternative. This is, however, a long-term task, not only because our possibilities are finite but also because these processes change slowly. At the same time long-term development cannot be automatically made up of a lot of short-term (and short-principled) stages without a generating strategic principle.

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LOCAL SELF-GOVERNMENTS AND ENVIRONMENTAL PROTECTION

DOROTTYA LODNER

Introduction

The topic indicated in the title may be approached within the framework and as an element of the changes of the socio-economic regime which has started in the Hungarian Republic only recently. What can be already perceived is a changed attitude to the handling of the issues of environmental protection. The governmental programme envisaged the improvement of the living conditions and quality of life by means of the uniform shaping of the natural and built environment. The task ahead is not easy in the least. The deterioration of the condition of the environment is a consequence of the economic policy of nearly four decades. The material- and energy-intensive economic structure, the proportion of the polluting technologies and branches, the exaggerated concentration of the economy, the neglect of the infrastructure etc. are all factors causing and conserving environmental pollution. Furthermore, the monolithic political system and the state apparatus serving it played a decisive role, which finally resulted in the producers' interests gaining ground and non-producing sphere and environmental protection in it falling into the background. Regulation as the implementation of this policy showed the marks of subsequent intervention in matters of environmental pollution, while it declared the importance of prevention. The predominance of the direct instruments of the authorities, the atomized relocation of the tasks and functions, the concentration of the representation and assertion of the sectoral and environmental interests in the hands of the individual (e.g. industrial, agricultural) ministries – and the list could be continued – all hindered the efficient activity of the state in environmental protection. The tasks and powers of the councils as self-governing representative organs were not settled by high-level provisions of law, therefore, they performed their tasks in environmental protection on the basis of the normatives of the highest authority.

Consequently, substantial changes are required which should cover all the fields of the management of environment issues. The measures to be taken are still largely in the stage of planning. The project of the ministry which is responsible for

environmental protection has been drawn up as part of the government programme. There are draft bills about the range of duties and powers of the Ministry for Environmental Protection and Regional Development, the shaping of its central and regional organization, the division of tasks between the regional apparatus of this ministry and the local governments. Act LXV of 1990 on Self-Governments was passed by the Parliament only recently. In view of the foregoing I may undertake to present and analyse partly the earlier activity of the councils, partly their expected and desirable role in the future concerning the role of the local governments in environmental protection. The tasks of the future local governments in environmental protection depend on a number of groups of issues which have not been determined yet. I would put under this category the shaping new regional policy, the re-regulation of legislation, in particular that of the Environmental Protection Act and in general the restructuring of management and organization in environmental protection. (The list, of course, is not complete.)

The disastrous situation of our environmental protection

The development of the quality of the environment is greatly influenced by the priorities, practice and efficiency of the regional and settlement development policy.

Today the majority of the Hungarian settlements are characterized by backwardness. In the smaller settlements there is a lack of basic infrastructure, healthy drinking water and drainage. In the cities shortages of qualitative nature are dominant. The existence of deteriorated central districts, the overloading of the infrastructure and environment is an indisputable fact. The economy-centred developments were realized to the detriment of the living conditions. The neglected quality of the built and natural environment is obvious. Since the costs of the prevention of detrimental effects were not built in the costs of production, the burden of environmental damage was shifted nearly completely on the environment and the society.

The Hungarian government handles the averagely polluted environmental quality of the country in its activities as a determining endowment, behind which the burdening of the individual settlements and regions already reaching critical levels and the accelerated deterioration of environmental quality are hidden. In these regions lives nearly half of the population of Hungary, therefore the improvement of the environmental quality in them is a pivotal question.

The point of departure for the evolving *new* regional policy is the right of people to the minimal conditions of livelihood and to expect the residential place to allow for the unfolding of their human abilities. The assertion of the rights to live in a healthy environment belongs within range, too. This (new) regional policy intends to put the process of the creation of values – in the spirit of the plurality of values – at the centre, as well as quality and continuity. A decisive role is assigned to the

utilization of the local economic, social and natural resources, but this policy definitely refuses to accept:

- the finalization of the situation of the backward regions through the inherited disadvantages of settlements,
- the determination of the development of settlements exclusively by external, economic or social regulation,
- the influencing of the fate of settlements by the sectoral, large-scale industrial, institutional or other power interests without control,
- people getting in privileged or disadvantageous situation on account of settlement policy.

In order to improve the living conditions and the quality of life, the government intends to take into account the regional inequalities of the society and the economy as well as the different endowments of the settlements. Regional policy is based on autonomy, self-government and bottom-top social initiative. At the same time the government is convinced that a regional and settlement policy at the national level is also indispensable to handle the problems which cannot be solved from local resources or by the regional pooling of forces (e.g. improvement of the situation of backward areas, social and economic renewal of villages etc.). Efforts are made to reduce the role of central intervention in regional and settlement development.

The first step and point of departure for ensuring regional autonomies is the adopted act on self-government. In the course of formulating the regional settlement policy, the government organs determine the framework of efficient functioning but do not specify the particular tasks for the local governments. The decision-making rights and responsibilities of the local governments are strengthened in the planning and regulating activities. The establishment of the institutional channels in the management of conflicts, publicity and the institutional rights of the groups of citizens will be ensured for the enforcement of local settlement interests. The completion of all this has a great importance in environmental matters because within the framework of the evolving market economy there is a danger of shifting responsibility and the number of conflicts is likely to increase. In the investigation of every significant political issue it is desirable that the regional segment appears not only as one aspect but also as one of the organizing principles in decision-making.

In the near future the enforcement of regional policy will be included among the duties of the ministry responsible for the condition of the built and natural environment, eliminating thereby the division of competence in regional matters. The ministry is to cooperate with the ministries guiding and influencing the social policy. As to its functions its activities have a coordinating character, having respect for the decision-making rights of the local governments.

The ministry under discussion has planned, among others, to establish central funds. Taking into consideration the fact that the substantiation of the local governments' decisions require the activity of independent experts, these funds would en-

sure the establishment of an information system serving the settlements as well and financing of using this information and expert work.

Environment-friendly legal system, public administration of environmental protection in transformation

The Hungarian government wants to put an end to the deteriorating process of environmental quality by the end of the millennium. It regards as its primary tasks to reduce the risks directly endangering the health condition of the population, to improve the quality of the air and water and to solve the issue of waste disposal. Specified attention is paid to the preservation of the irreplaceable natural values.

The realization of the environmental objectives require the following:

- a specific system of tools in the field of environmental protection,
- enforcement of the environmental requirement in the sectoral development strategies,
- development of the information system,
- tools of education and instruction,
- international and research activities.

In the selection of the suitable instruments environmental, economic and administrative efficiency and functioning ability are to be asserted (in a way in which more and more significant matters can be solved with as little input as possible).

The regulation of environmental protection is in need of reformation, or in the recent wording of technical literature on law: an environment-friendly legal system should be elaborated.

The main trends of changes in headwords are as follows:

- The legal system shall take into account the aspects of prevention in environmental protection (instead of the earlier removal of pollution);
- On account of the principle of constitutional state regulation is to become normative, instead of the mere declaration of the basic principles of environmental protection in the form of wishes, concrete tasks should be formulated and assigned to the whole of the executive power and public administration ensured by guarantees;
- Regulation shall assist the enforcement of the responsibility of the party at fault, that is the party causing the pollution should pay;
- In cases where normative handling is not possible, correct public regulated procedures are necessary;
- The environmental information system should be developed further: it is to serve both the work of the authorities and the evaluation of the environmental condition - the latter calls for accessibility to the environmental data of the individual regions in a uniform, systematized manner if anyone needs it;
- A new environmental protection act is to be made;
- This act should order the publicity of environmental protection;

– The law is to lay down the special rules of the enforcement of rights with regard to both the individuals and the communities;

– The role of the state cannot be drastically reduced in the field of environmental protection – the functions of the state have to be determined, a normative system of financing these tasks is to be worked out, the main safeguards of which must be ensured by guaranteed state support of stable value;

– It is reasonable to regulate the participation of the state and the agents of the economy by law in solving the tasks of environmental protection and also easing the burdens falling to the lot of the population;

– Besides the competency of public administration a basic requirement is autonomy – therefore, administration is to be separated from the producer's interests, the work of the government and authorities should rely on independent expert opinions and the work of the authorities be independent of the dominance of local economic interests;

– Laws should determine the rights of the local self-government related to environmental protection, with special attention paid to duties in environmental protection which emerge in connection with regional development and planning;

– The multiple-stage central legislation should be reduced to the minimum, providing an opportunity for the local governments to exercise regulating activities;

– It is expedient to determine the basic elements of the administrative system of environmental protection in the form of law – with regard to the regional performing of tasks, in particular. It is of utmost importance that the political movement of the pluralist democracy should not expose the administrative organizational system of environmental protection to substantial changes from time to time.

According to the government conception the system of tools is to be expanded in the regulation of the economy as well. To this effect the following measures are included in its plans:

– the introduction of environmental load rates in proportion to the extent of pollution,

– the function of the system of penalties will continue to restrict the issue of pollutants above the limit value,

– the use of natural resources needs regulation,

– the sums of money received in connection with environmental protection will be managed and used by the Foundation for Environmental Protection (there will also be funds owned by the local governments for the purpose of environmental protection) to enforce the priorities of environmental protection, strictly on a technical basis and through public tenders.

The development of the public administration of environmental protection was taking place under the given conditions of the political system and the economy from the 70s. The tasks of administration were often related to the management of environment elements, contributing to the assertion of the sectoral approach as opposed to the interests of environmental protection. A disunited administrative and organizational system was established at both the central and the local level. From 1977 the central administration of environmental protection got under the

authority of the office exclusively in charge of it. This, however, was not accompanied by the overall concentration of administration some special fields of environmental protection and the administrative functions of the numerous sectoral ministries remained.

From the 80s the demand for a genuinely uniform central administration separated from the other branches and uniform management system emerged. The solution turned out to be ambiguous. Although the supreme authority responsible for the condition of the environment advanced in the governmental hierarchy: it was granted ministerial legal status, since it was united with the former supreme authority for water conservancy, the sectoral element also appeared in it, we might even say, it became dominant.

The most recent change was brought about by Act XXX of 1990, which contained provisions as to the establishment of the new ministries of the Hungarian Republic as well as to that of the Ministry for Environmental Protection. The government is entitled to determine its duties and responsibilities. According to the plans – on the level of bill – the Ministry for Environmental Protection and Regional Development is the central administrative supreme authority of environmental protection. As a main organizing principle, the administrative powers of this minister in environmental protection embraces the whole of environmental protection, while in certain partial fields (which remain under the management of other ministries) are granted strong cooperative authority (e.g. the protection of the mineral and forest treasures, soil and wildlife etc.). Accordingly, he enforces the requirements of environmental protection in regulation, cooperates as an expert authority in certain public proceedings, initiating official regulative and supervisory measures in the interest of environmental protection. In addition to the functions mentioned above, he also performs the central administrative tasks of regional development, public construction and the preservation of monuments. Namely, at the central level a process has been launched – at least in the field of organization – which may serve as a framework for the concentrated administration of the environmental problems, held in the hands of one agency.

The picture is not so clear concerning the future functions and responsibilities of regional administration and the local governments in environmental protection.

The role of the councils and local self-government to be formed in the immediate future in environmental protection

Our environmental protection act does not contain provisions on the regional administration of environmental protection. In the relating section of the act the regional administrative organs are mentioned, but only in the capacity of addressees of sectoral and public tasks and as organs exercising supervision over the economic organs. The central laws issued on the administration of environmental protection institutionalize on the regional level an organizational framework, the exclusive task

of which is the coordination and control of the regional tasks in environmental protection.

At present the regional administrative allocation of tasks is characterized by division. Environmental protection tasks are performed by public administrative organs (e.g. directorates of environmental protection and water conservancy) which function exclusively under central administration irrespective of the county boundaries, on the other hand, by the specialized apparatuses of the county and local councils (e.g. agricultural department) and at last by the so-called specialized administrative institutions of county (settlement) competence under exclusive central administration at present (e.g. land registry) as opposed to the double (local and central) administration of the recent past. The inspectorates in charge of environmental protection exclusively invested with environmental protection and nature conservation tasks on the territory of three counties were operated only for a couple of years. In parallel with the establishment of the former Ministry for Environmental Protection and Water Management – from the professional aspect in a manner which can hardly be justified or approved of – the inspectorates were merged with the directorates of water conservancy which had long historical traditions and significant power.

I carried out empirical research to explore and evaluate the environmental protection activities of the officials of the city councils' corporations who were employed exclusively to perform functions in the field of environmental protection. I am going to present the findings of my research in brief below.

In assigning the environmental protection tasks to the given regional units within the framework determined by central decisions, a point of departure taken was the planning activity of the county councils. Nowadays all the county councils have a long-term conception of environmental protection, and medium-term plans concerning the break-down of the former. The analysis of the environmental situation and the assignment of tasks forms an integral part of the regional and settlement development planning of county, too. On the basis of all this, our councils seem not to have possessed real influencing possibilities. This, however, would be a wrong conclusion. Namely, these plans mostly were confined to the mere repetition of the central prescriptions with some consideration of the regional peculiarities. To achieve the objectives, the councils had neither scope of authority (they did not have real power to influence the activities of the organs destined for implementation) nor financial instruments.

The administrative work of the council corporation embraced the following areas and groups of activities:

- decision-making on certain comprehensive reports with relevance for environmental protection (e.g. the public health service situation in a county),
- evaluation of work taking place in certain special fields of environmental protection (e.g. culture of settlement environment in the county),
- declaration of landscapes of local significance as nature conservation areas by council decree,

- normative-shaping activities of the local councils in environmental fields (e.g. regulation of animal keeping),
- making rules and regulations (e.g. regulation of investment).

I might also add to the issues described earlier that the decisions were made with a low efficiency of enforceability.

As compared to the council boards the executive committees functioning as public organs of general competence dealt with a greater number and range of issues in environmental protection. Their activities can be traced on the basis of the following groups of functions:

- planning of environmental protection and some of its partial fields (e.g. complex waste dumping in the county),
- evaluation of the situation of certain special fields of environmental protection in the county, the assignment of tasks (e.g. melioration and recultivation),
- calling to account the special administrative agencies of the county council also performing tasks in environmental protection and the so-called special administrative institutions partly under council control in those days (e.g. agricultural department, land registry),
- calling to account council-owned enterprises also performing environmental protection tasks (e.g. sanitary and gardening enterprises of settlements),
- decisions on the reports about the activities of the executive committees of the local councils (e.g. in connection with the supply of healthy drinking water),
- financial support for the investments of the organizations and institutions managing resources from the Council Fund for Environmental Protection and also backing of the local councils from the county budget.

The county council committees for environmental protection and nature conservation as well as the county secretaries for environmental protection and nature conservation were functioning exclusively to perform tasks related to environmental protection. The efficiency of their work was restricted by their respective roles: preparation, coordination and supervision. The secretary did not have real powers, what is more, there has been a retreat in his legal status recently (while formerly he performed the supervision and coordination of environmental protection under the guidance of the council president, now he works within the framework of the council administrative organs which also perform special administrative tasks in environmental protection).

In summary, our evaluation of the environmental protection activities of the councils is as follows: the councils made an attempt at influencing the environmental condition of their regions without authorization, or rather without obligation by the law, yet mainly on the basis of the central assignment of tasks. The poor efficiency may be ascribed not so much to the fault of the authorities and council leaders as to the restrictive framework determining their activities.

Today it would be too early to outline unambiguously what role the local governments to be formed after the municipal elections of autumn 1990 will play in environmental protection.

In the analysis of the tasks of the local governments in environmental protection the general provisions of the self-government act should be taken as a starting point. With regard to the rights of self-governing the act spells out the following disciplines:

- The local government acts independently in public matters of local interest within its functions and responsibilities;
- The local public matters are related to providing public services for the inhabitants, the local exercising of executive power as well as to the creation of the necessary financial conditions;
- The law may determine for the local government obligatory duties and functions, at the same time the Parliament is in charge of providing the necessary financial conditions for fulfilling them and making decisions on the extent and manner of the budgetary contribution;
- Within the framework provided by the law the local government is authorized to regulate independently and in individual cases to administer freely matters falling within its duties and functions. Its decisions may be revised only by the Constitutional Court or another court exclusively in the case of the violation of law.

As opposed to the former council act, the self-government act specifies, among others, the protection of the built and natural environment as tasks falling within the range of the local public services which are provided by the local governments of settlements. The autonomy of the local governments in this sphere – with the exception of a group of functions which I am going to touch upon later on – entails that on the basis of the inhabitants' needs they may decide which tasks to perform and to what extent, depending on their financial possibilities. In the act the providing of healthy drinking water is regulated as an obligatory task for the local governments and it is supplemented by an appointed deadline as well. Since the group of tasks in question is an obligatory one, in this case the undertaking of the commitments by the parliament as referred to above is valid concerning the ensuring of the necessary financial conditions. This requirement is dubious on account of the financial possibilities of the local governments alone, to say nothing of the fact that this theme has been a national programme for quite a few years now, but without much result.

Within the field of environmental protection, in the interest of the implementability of the voluntarily undertaken tasks, the local governments will probably have to take the opportunity provided by the law, thus to make the best of the different types of associations, in particular, and of the right to establish enterprises and institutions providing public services and finally of getting in touch with the self-organized communities of the population.

The law under discussion – or to put it more precisely, its exposition – has provisions once more on environmental protection: from among the functions of the body of representatives the ones that may not be delegated are: approval of the settlement development plans, and in this relation it is also spelled out that it is not expedient to obligate the local governments of settlements to make other special

types of plans. Therefore, it is reasonable – says the exposition – to form the content of regional planning with the inclusion of environmental requirements.

The self-government act makes possible the legal assignment of other obligations for the local governments of settlements. The draft bill aiming at the amendment of the environmental protection act was made in this spirit. This draft bill – at least concerning the special fields within the competence of the Ministry for Environmental Protection and Regional Development – specifies the tasks to be performed by the local bodies of representatives and the mayor.

On the basis of this list of powers and taking into account the planned duties and functions of the environmental protection inspectorates which will be formed in the near future, the following may be concluded:

a) As compared to the former system of councils, the local governments will not be assigned new functions;

b) The functions and powers of the local governments will include the scope of nature conservation, protection of clean air and reduction of noise which require the consideration of some local peculiarities as well as the right to dispose of and manage the environmental protection fund. The latter right may play an important role in the solution of the local governments' tasks in environmental protection. The content of this sphere of authority, however, is unregulated. It is desirable that the local governments have possibilities to create local environmental protection funds and to use them freely;

c) The administration of regional environmental protection will take place mainly within the framework outside the local governments in the same way as in the past and the present. According to the draft bill, the environmental protection inspectorates functioning in exclusive subordination to the centre will be entitled and obligated to proceed in 98 types of matters as against the 40 types of matters falling within the mayor's competence;

d) If the local governments of settlements fully undertake tasks in environmental protection, the manner of maintaining relations with the administrative organizations of environmental protection will have an increasing significance. Within this range the practical enforcement of the right of representation, as specified in the self-government act, will be desirable (of the rights of asking for information, making proposals, initiating measures, expressing opinion and putting in pleas in any issue which might affect the local government in relation to the competent state organs). I think that cooperation, the maintenance of relations between the inspectorates and the local governments of settlements are problematic on account of the theoretically different ranges of activities. While the local government activities take place within the administrative boundaries – also taking into consideration their associations – the inspectorates function in several counties in accordance with the catchment areas, beyond the county and administrative boundaries;

e) In connection with what has been said above, in practice problems may emerge on account of the activities of the commissioners of the republic in environmental protection. The field of activities of these commissioners is divided according to regions (which naturally does not coincide with that of the

inspectorates). It is a problematic issue e.g. how the commissioner of the republic will be able to coordinate the activities of the local government offices and the inspectorates, which normally will fall within his competence.

The developing autonomy of the settlements entails a greater administrative task in environmental protection as well. Neither the local governments nor their apparatuses are prepared to cope with it, at the same time in the future more and more conflicts are likely to occur with the enhanced presence of the economic-market interests. On the one hand, the gradual reduction of the central functions is necessary, on the other hand, the powerful enforcement of civic freedom and self-governing. In environmental protection the activities of the local governments should be assisted by means of the training of experts and the cooperation of independent professional organizations which are available according to needs.

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LEGAL ASPECTS OF TRANSITION TO MARKET ECONOMY UNDER THE CONDITIONS OF THE ADMINISTRATIVE REFORM IN ESTONIA

ALBERT PALTSER

The process of transition from centrally planned economy to market economy has started in Estonia; however, its completion will take a long time. This is caused by various phenomena.

Transition to market economy involves not only radical changes in economy; but actually a new economic system is to be created. Such a transition is simultaneously an extremely wide legal reform affecting the majority of legislation valid in the Republic of Estonia now, and consists in changing or invalidating the existing acts as well as working out and adopting new ones based on new principles. Both these processes are inseparably interrelated, and require close collaboration of specialists in economy and law.

The solution of economic and legal problems necessary for transition to market economy, in its turn, is inseparably interrelated to the solution of highly important political and ideological issues as the transition process actually means a transfer from presently predominating state property to private property or other forms of property.

For half a century the Estonian people have been taught that the ground of every evil in society is private property and people's economic inequality characteristic of it. We must admit that such brainwashing has left its traces in people's minds. This is vividly shown by some people's attitude towards those people who are active in establishing private enterprises and have achieved some economic success. Though these people regard the establishment of private enterprises as such necessary for society's development, they nevertheless fear that this will bring about economic inequality harming thereby the interests of part of the people.

Consequently, during the transition to market economy an important task of economists, lawyers and politicians is the explanation of new economic and legal relations to avoid the fear of the new brought about by the transition.

As the majority of the people living in Estonia have never lived under market economy, it is understandable why such a great number of specialists, including economists and lawyers, have now to solve problems they have never faced before.

This is one of the factors causing somewhat bigger time expenditures e.g. in finding legal solutions to problems cropping up during the transition process.

By the present time over 20 important laws creating a certain legal foundation to the new economic relations have been worked out and adopted. To guarantee their realization also a number of decrees of the Republic of Estonia and other legal acts have been adopted.

As the laws adopted are the so-called base laws comprising prevailingly general legal norms, the main task in the creation of laws in the near future will be legal regulation of relationships that will be formed in the course of realizing the existing laws. In so doing the working out of such legal norms that guarantee the development of new economic and ownership relations is to be regarded as especially important.

Below we shall discuss the following laws regulating ownership relations in the Republic of Estonia (up to May 8, 1990 that Estonian Soviet Socialist Republic): the Act on Property¹, the Act on the Foundation of Local Self-Government², the Act on Enterprises³, and the Act on Farms⁴. Also, some legal acts connected with these laws will be tackled.

All these laws are to some extent connected with the administrative reform. This is due to the fact that the administrative reform grants local governments extensive rights in issuing permits for establishing enterprises and family farms. To adequately interpret the rights of the new authorities in ensuring transition to market economy, it is necessary to have a survey of the legislative acts in whose realization the local governments will play an important role.

The Act on Property adopted on June 13, 1990 and valid since July 1, 1990 is the most important from the standpoint of the development of ownership relations in the Republic of Estonia.

From the standpoint of transition to market economy the Article 18 of the Act on Property is of special significance; according to this paragraph all forms of property are juridically equal, and the Republic of Estonia guarantees inviolability of property, and each owner's possibility to exercise his right to property. The realization of the right to property can be restricted only in cases and in the order enacted by the laws of the Republic of Estonia. This means that private property enjoys already now equal rights with other forms of property.

Of special importance is Article 15 of this Act, according to which the size of the property acquired by a citizen in legal ways is not limited. In this connection the Supreme Soviet of the Estonian Republic adopted the Act on Making Amendments in the Civil Code of the Estonian SSR⁵. This act annuls all the restrictions imposed by the Civil Code on the property possessed by citizens as private property. The normative act valid now allow citizens to own means of production, enterprises, farms, an unlimited number of dwellings, and other property.

From the standpoint of private property also the regulation in Article 16 of the Act on property is of vital importance. It states that right to private property shall arise from the incomes obtained from enterprising, wage labour and personal household, dividends from shares or other securities, transactions, and other

incomes whose obtaining does not violate laws of the Republic of Estonia. This regulation confirms the principle which allows both private enterprising and wage labour in Estonia.

From the standpoint of the development of private property and market economy also Article 6 of the Act on Property enacting that the right to property shall arise from producing or obtaining property by transactions, rehabilitation of the right to property, or in other ways not violating laws of the Republic of Estonia. Rehabilitation of the right to property as one of the sources of the right to property is worth special attention here.

As is well known, in 1940–1941 as well as in post-war years extensive alienation or nationalization of citizen's property without any remuneration was carried out. The rehabilitation of the right to private property in Estonia has brought about the need for denationalization of nationalized property. This involves a wide range of highly complicated problems which are to be solved. Jurists as well as economists will have to participate in their solution to ensure that righteous denationalization would not bring about detrimental consequences for the whole Republic and its population. It must not be forgotten that up to 1940 the state owned a very small part of the property situated on the territory of the Republic of Estonia. Nearly all property was in private ownership belonging either to single persons or joint-stock companies. Its carelessly planned and hasty restoration to the former owners or their legal successors may cause serious economic difficulties in Estonia.

At the same time, however, we must not drag on the solution of problems pertaining to denationalization. as is known, the formation of owner-operated farms is under way. The owner of a farm will be a real master if he owns also the land. Thus, the problem of giving land into private ownership is on the agenda.

However, it is unthinkable, in our opinion, that land can be given into farmers' ownership before the problem of denationalization of land is solved. Considering the equality of the initial owners' right to property irrespective of whether they own shops, plants, land or some other subject of proprietary rights, the problems of denationalization should be solved proceeding from uniform principles.

As the solution of denationalization problems will take some time, it has been considered necessary to find also other ways for diminishing the share of state property in Estonia. Two main possibilities here are privatization and creation of municipal property.

By privatization we refer to the legal transfer of such property to a private person whose initial owner is the state.

While denationalization will involve such property whose owner the state seems to have become as a result of nationalization, then privatization may concern property created by the state itself and to which no private person has ever had proprietary rights.

Though they consider privatization of vital importance for economic growth, the Supreme Soviet and the Government of the Estonian Republic have nevertheless imposed some restrictions until a special legal act regulating privatization is adopted. For example, it has been enacted that until the privatization programme is

started, the immovables of state-owned organization can change owners only with the consent of the city or village council who administrates the territory where the property involved is located.

The imposition of such restrictions is presently necessary for several reasons. One is that we do not know the real value of the property, especially immovables owned by the state. It is strange, but true. As state usually had exclusive rights to the buildings in its possession which could not be alienated, there was no need to know their actual value. The so-called balance-sheet value was somewhere in documents, but nobody was interested whether it corresponded to the actual value or not. In the course of privatization attempts have been made to alienate property whose actual value is considered to be several millions for a few thousands since that is what the documents say.

No doubt, it is extremely difficult to assess the actual value of property under the present conditions. Bidding, i.e. the sum offered by buyers in case of their competition, might serve as a certain criterion. In recent months elaboration of regulations for such competitions or auctions has been started. However, several other circumstances besides money offered or obtained for property should be taken into consideration in case of privatization.

For example, in some cases it might be important to ensure that the property to be privatized should not be used for other purposes than previously, or that the new owner should not hinder local people from using the property. So, in our opinion, the only sauna of a small town must not be sold to a person who will turn it into a bar or a hotel, so that there will be no sauna in the town for some time at least. Likewise, it must not be permitted that the hotels of a resort town are sold to a foreign firm situated on the Estonian territory who will allow only its own employees to use them. All such circumstances require that serious attention be paid to working out privatization regulations.

As both denationalization and privatization are relatively long processes, the so-called municipal property has been acknowledged as a new form of property.

Municipal property is enacted by the above-mentioned Act on the Foundations of Local Self-Government adopted by the Supreme Soviet on November 10, 1989.

As stipulated by Article 13 of this Act municipal property is such property that belongs to the population of the respective administrative unit through the council of the local self-governing organ. Municipal property is possessed, used, and controlled by the population of the respective administrative territory through the bodies of local self-government. This shows clearly that municipal property is not state property, but it is possessed by the population of the respective administrative territory through local self-government bodies.

The proprietorship of municipal property is expressed in a somewhat different way in the Act on Property. Article 30 of this Act states that municipal property is property owned by a township, city or county. As the population of a township, a city or a county forms part of the township, the city or the county, we can interpret Article 30 of the Act on Property so that it does not contradict Article 13 of the Act

on the Fundamentals of Local Self-Government where the population of an administrative territory is expressed verbiis called the owner of municipal property.

In our opinion this standpoint does not contradict either Article 33 of the Act on Property according to which the order of possessing, using and controlling of municipal property shall be fixed by the bodies of local self-government on the basis of laws concerning local self-government and the respective laws of the Republic of Estonia. This provision must not be interpreted as if municipal property belonged to local self-governments, not to the local population. Article 33 of the Act on Property stipulates how the order of possessing, using and controlling of municipal property shall be fixed, not the possessing, using and controlling of this property. Thus, also this Act regards municipal property a property owned by the population of the respective administrative territory.

The fact that municipal property is property belonging to the population of the respective administrative territory, and not to some body of local self-government, is in our opinion of great practical significance. There are several reasons for this.

According to Article 14 of the Act on Local Self-Government municipal property may include manufacturing, transportation, service, trade and public catering enterprises; financial, cultural, health care, social maintenance and educational institutions and other enterprises, institutions and organizations based on municipal property. Article 13 of the same law stipulates that municipal property includes incomes envisaged in the balance as well as those not envisaged in the balance.

The fact that all municipal property belongs to the local population means, first, that local self-government bodies shall have to possess, use and control this property in the interests of the local population as the owner. Secondly, this means that the local population has the right to demand that local self-government bodies should report on the possessing, using and controlling municipal property. The third consequence is especially important.

Namely, according to Article 1 of the Act on the Fundamentals of Local Self-Government local self-government means independent decision-making and arrangement of local life by the population either *directly on through there – respective bodies* adhering to the laws valid in the Republic of Estonia and proceeding from people's interests and the peculiarities of the respective administrative territory (the author's spacing). As local self-government involves also direct decision-making by the population, not only through the respective bodies, it follows that the local population can possess, use and control municipal property directly. Of course, this can be accomplished within certain limits and in the form of local referendums. This should be born in mind in working out laws concerning townships, cities and counties, and referendums. If, for example, a township has five million roubles, then why could not the local people decide directly whether to build a hospital or some place of entertainment for this money.

Article 33 of the Act on Property enacts that municipal property shall be formed as a result of transferring state property to local self-government, the activities of municipal enterprises, establishments and other municipal organizations as well as local self-governments themselves, from revenues into local governments

and other incomes. Note that transfer of state property is the source mentioned first.

Although the Act speaks clearly of the transfer of property, not its selling, the question arises whether such transfer can be accomplished without any change. Some people are of the opinion that since state property belongs to the whole population, it should not go into municipal ownership free of charge. In my opinion this standpoint is unfounded.

Although state property belongs to the whole population, this fact does not justify transfer of property into municipal ownership for payment. There are three main reasons for this. First, being state property this property belongs also to the people living on the administrative territory concerned. Thus, those people would have to pay for property belonging to themselves. Secondly, there are no criteria for ascertaining what part of the property to be sold belongs to the population of the given administrative territory, and what part belongs to the other citizens. And thirdly, if state property located on administrative territories was sold into municipal ownership, all local self-governments would become indebted to the state as they have no money to pay for the property. Therefore, state property should be transferred to local self-governments free of charge.

In addition to denationalization and privatization the laws valid in the Republic of Estonia provide for the formation of new enterprises. Detailed regulations for this can be found in the Act on Enterprises adopted on November 17, 1989. Within the framework of this Act all types of enterprises including those belonging to single persons and joint-stock companies can be formed. According to Article 6 of this Act an enterprise can be established by a state organ of the Estonian SSR, an organ of local self-government, enterprise, public organization or public movement, some other organization, a group, or a single person.

To establish an enterprise an establishment permit and registration of the enterprise are required. Article 9 and 16 of the Act on Enterprises provide that permits for the establishments of enterprises shall be issued by the local self-government body on whose territory the enterprise is to be located. The enterprises shall be registered also in the local self-government body.

A local self-government body may refuse to issue a permit for establishing an enterprise only if: 1) the establishment of the enterprise would damage the interests or natural environment of the respective administrative territory, 2) the statutes or other foundation documents of the enterprise are not in harmony with the legal acts valid, 3) some fields of activities of the enterprise are illegal, and 4) at the establishment of the enterprise the order enacted by law has been violated. A local self-government body has no right to refuse to issue a permit for establishing an enterprise for any other reasons. So, for example, refusal cannot be motivated by the circumstance that a municipal enterprise is already active in the same field.

The order for the registration of enterprises that have obtained the establishment permits is provided by the Provisional Instruction for Registering and Issuing Establishment Permits for Enterprises in the Estonian SSR⁶ approved by the Government of the Estonian SSR on January 18, 1990. In accordance with this Instruc-

tion an enterprise is obliged to register itself before starting its economic activities. Economic activities of an unregistered enterprise are prohibited. An enterprise is considered to be established and it gets the rights of a legal person since the day of its registration. The enterprise shall be registered in the executive body appointed by the town or county council on whose territory it is to be established. When an enterprise is registered, it is issued a registration number and a registration certificate.

Having got its registration certificate, the enterprise has to obtain the permit for operation from a local self-government body. To issue the operation permit, the executive body of the local self-government has to elucidate on the basis of documents and, if necessary, check whether the operation conditions of the new enterprise meet the requirements set by Estonian legislation. The executive body of the local self-government may refuse to issue the operation permit if the operation of the enterprise may result in violating the terms set by the local self-government body or other component authorities.

So, we can see that for starting its economic activity, an enterprise must have three permits: foundation permit, registration certificate (it may happen that authorities refuse to issue it), and operation permit. As all these documents are usually issued by the same body of local self-government, then the arguments that the order of establishing enterprises might be simpler, seems to be well founded.

In connection with permits for operation, one more circumstance deserves discussion. The issuing of operation permits to enterprises operating in the fields where licenses are required belongs to the competence of the Ministry of Economic Affairs or to bodies authorized by this Ministry. Such order is enacted by a decree of the Government of the Estonian SSR on Licensing the Activities of Enterprises in the Estonian SSR⁷.

The same Decree establishes the activities to be licensed; the list includes 26 activities. So, besides for all kinds of foreign economic activities; arranging banking and money circulation; air, sea (excl. activities involving small vessels) and rail transport (excl. rail transport within an enterprise) licenses are required also for all types of medical care, all education outside the state educational system, legal assistance (excl. the ESSR Bar), setting up private detective agencies, commercial fishing etc.

Licenses are issued for a fee either for a certain time or for fulfilling a certain task with fixing the volume, order and way of performing the work concerned, or setting specific terms for the licensee. The authorities may refuse to issue a license only if the activity of the enterprise may damage the interests of the Republic of Estonia or its natural environment, or be hazardous to people's health. The decision on refusing the issuing of a license must show the reason for the refusal referring to the legal acts on which the decision is based.

Among the laws regulating the transition to market economy an important role is played by the Act on Farms⁸, which provides that the tillers of land themselves can choose in what kind of economic relations to participate and creates precondi-

tions and possibilities for the formation of family farms and guarantees their legal and economic independence.

According to Article 2 of this Act a family farm is the form of agricultural enterprising based on land granted by the state or rented, and on production means to which the household holds proprietary rights or which are rented; the main goal of a family farm is commodity production and rehabilitation of traditional Estonian rural life; a family farm is to be registered as such in the local self-government.

This definition shows clearly that a farm household has proprietary rights to production means, but not to land. So far the state has exclusive rights to land in Estonia and land cannot be either purchased or sold. Although several well-founded proposals to the effect that land be declared a subject of private ownership have been made, the legislator has not done it. In our opinion the state's exclusive rights to land are a serious obstacle to free development of market relations.

As land is owned by the state, a farm household only uses state land given to it for this purpose. According to the Act, land is given to the farm household for perpetual use. Although the land is given to the farm household, the documents of land tenure are on the farm master's name. A farm master is a member of the farm household for whom farming is a full-time job, who runs the farm and represents the farm in its relationships with the state and other persons. The farm master also enjoys the right to leave the right to perpetual use of land to some household member in his will. In case there is no will the right to perpetual use of land is inherited according to the respective law.

As the sale and purchase of land is forbidden, the land, forests, water bodies and mineral resources of local importance are transferred to the farm master by the decision of the local self-government body for perpetual use free of charge with the right to bequeath them. The maximum area of a family farm is 50 ha of tillable land. In exceptional cases, depending on the character of the farm, it may also be larger.

While the Act on Property and the Civil Code allow a citizen to own more than one house, then Article 35 of the Act on Farms provides that a farm master may own only one farm.

Among other principles the Act (Article 25) provides that the master himself makes the decisions about the line of activities, production volume and structure, ways of selling the produce as well as other questions connected with running the farm. The agricultural activities of a farm are based on the principle of self-repayment: the incomes must cover the expenditures. A farm household is allowed to engage in auxiliary agricultural production and processing of farm produce without any special permits. Its economic relations with organizations, other farms and persons shall be based on contracts. Family farms have the right to pursue foreign economic activities on equal terms with other forms of enterprising as provided by the law.

In the same way as the right to land tenure is granted to the farm master by the local self-government body, it can also be terminated by the same body. The grounds for terminating the right to land tenure are presented in Article 1 of the Act. So, the right to land tenure can be terminated: 1) if the land is not used as

envisaged for two years, or if the order of land use or environmental requirements are repeatedly violated, 2) if the farm master is sentenced for a criminal offence for over a year, 3) if the farm master is punished for offences against the person or property of members of the household or people working on the farm under contract, 4) in case the master is declared unable to work or if his capability is limited, 5) if the household's all property is sold to pay debts, or to cover other demands by the court (in case of bankruptcy), 6) if the land is alienated for national or public needs.

As we can see, cases in which the right to land tenure can be terminated are quite numerous. However, note that in case the farm master's right to land tenure is terminated the farm household will continue farming (except in cases 1 and 5) if one of its members (either one belonging already to the household or a new member) applies for and is granted the right to land tenure.

Above just a few laws and legal problems connected with the transition to market economy were discussed. Much work remains yet to be done. In solving problems cropping up it would undoubtedly be useful to take into consideration the experience accumulated in other countries and the opinions of scholars.

Notes

¹ Eesti Vabariigi Ülemnäukogu ja Valitsuse Teataja. 1990. 20. Art. 299.

² Eesti NSV Ülemnäukogu ja Valitsuse Teataja. 1989. 34. Art. 517.

³ Ibid, 1989. 36. Art. 554.

⁴ Ibid, 1989. 39. Art. 611.

⁵ Eesti Vabariigi Ülemnäukogu Teataja. 1990. 20. Art. 300.

⁶ Eesti NSV Ülemnäukogu ja Valitsuse Teataja. 1990. 2. Art. 34.

⁷ Eesti Vabariigi Ülemnäukogu ja Valitsuse Teataja. 1990. 15. Art. 250.

⁸ Eesti NSV Ülemnäukogu ja Valitsuse Teataja. 1989. 39. Art. 611.

DEVELOPMENT OF THE COMMUNAL PROPERTY IN HUNGARY

ISTVÁN KAJTÁR

Self-government and property

During the past few months the development of Hungarian constitutionality has been commenced and the restoring of the local governments has been initiated. The reviving of the local communities obviously entails not only the renewed feeling of attachment on the side of the citizens to their towns or townships through participation and the control of the activities of their representatives, or only the condition that the self-regulation of the community becomes at once a process regulating the local circumstances, but the renaissance of autonomy also requires possibility for the population which is concentrated in the town or township to be related to the things providing them with a place of living as *to their own*. On August 3, 1990, the Act LXV on Self-Governments was passed by the Hungarian parliament. According to Section IX of this Act the local government disposes of its own property. In this way the communal property, which had been eliminated in 1950 with the simultaneous destroying of the local governments and the establishment of the system of councils, was revived.

Thus a case at issue now is the detailed regulation of the property of the local governments. In addition to the complex legal-organizational-economic approach, that of sociology, international comparison is present as well. In what way can legal history contribute to this? Obviously, by mediating the historicism of the fundamental questions. Basic models, development trends, the evolution of the models of autonomy-supervision, the protection of minority interests, the basic elements and the dynamics of the property management of the local governments may make up the essential issues of a historical survey.

The outlines of the evolution of the local governments' property in Europe

Before starting our investigation which concentrates on the 19th and 20th centuries, it is inevitable to present the genesis of the local governments' property. The first typical form of communal property was that of the *municipal local governments*.

In the different spaces the autonomy of the European mediaeval towns was created approximately between the 11th and 13th centuries. In this process the town as a *legal entity*, also the subject of proprietary rights, came into being. To make possible the existence of independent property, on the one hand, the power and the proprietary rights of the former ruler of the town (the king, prince, bishop etc.) had to be weakened, on the other hand, the property of the town (as a *corporation*) had to be separated from that of the citizens. The first condition was most successfully completed in the city-states, while in the royal boroughs and the towns ruled by provincials the right of disposal continued to be restricted to a smaller or greater extent by the right of assent and supervision of the ruler over the property. In the second issue, however, a whole series of special utilization privileges and rights as legal due of certain groups of the townsmen to certain objects of the town property (forest, pasture, hospital etc.) can be observed.

The property of the towns included the jagged city wall, the towered town hall, mills, meat stalls, houses and hospices as well as forests and manors, what is more, under certain conditions, the towns were also entitled to have villages held in villeinage, just like the landlords. This was the basis of a town administration, the operation of which made the town the cradle of a lot of modern legal institutions and organizational forms.

The property of the provincial nobiliary-feudal corporations was formed basically under the rules of nobiliary private law, the economic weight of which, however, could never come near the importance of the town property. As opposed to this, in the villages the intervention of the landlord often made the mobilization of the village community's assets illusory and the rural communal property started to be converted from the shared property of the socage peasants into the public property of the community only by the beginning of the modern times.

At the turn of the 18th and 19th centuries the great process, in the wake of the revolutionary reform efforts of which the modern bourgeois local governments were also established, commenced.

In the *French-Belgian* space a uniform system of townships was formed in the spirit of the radical structuring of the state, under tight central governing. The French private law (Code Civil) was greatly opposed to the corporations in those days, therefore the regulation of the local governments' property was left nearly entirely within the jurisdiction of the public law.

The traditional roots of the *English* development were much stronger than the ones that could be observed on the Continent. The fact that in England the acquisition of property by the local governments was restricted in the case of the towns with reference to the „mortmain” property – which is rather difficult to describe – may be due to this. On the level of the townships the lucidity of the local govern-

ments (and their proprietary rights) was further complicated by the fact that besides the actual townships the parishes and other separate formations (road and water unions) could also fulfil local tasks.

As an overture to the 19th century *German* movements to establish local governments, the emancipation of the Prussian municipal local governments was started in 1808. Until the middle of the century acts in several questions connected with self-government were issued. In the regulation of the local governments' property the following basic tendencies could be observed:

- No uniform law on the local governments was formed, the organization of the villages, towns and territorial units (Kreis, Provinz) as well as their property was settled from case to case;

- Concerning regulation the intensity of state supervision over the property was adjusted to the political changes;

- In the local governments the special proprietary privileges enjoyed by very important residents were abolished only gradually;

- The magistrate and its bodies only prepared the operation of the property, the authoritative decision (conditional upon superior assent) being in the hands of the representative bodies, while the operative property management was the task of the special apparatus under the control of the magistrate.

By the last third of the 19th century, legislation on self-government had become rigid, albeit on the basis of industrialization and urbanization at the turn of the century the issue of the plants and working capital of the town often raised entirely new problems. Namely, in these enterprises the property of the town was predominant, in 1911 74% of the 1572 gas works of the towns, in 1907 93% of the water works of the towns and townships were owned by the respective local governments in Germany. Before 1945 the rather contradictory closing of the history of the regulation of the local governments (communities) was brought about by the imperial township act of 1935. On the one hand, in the totalitarian power structure the local government was merely the lowest subordinated organ of the state apparatus. The local governments' property was restricted by rather strict state supervision comprehending the slightest details. On the other hand, in the debated questions lasting for several centuries about communal property, we can come across clear wording and full-fledged legal institutions at last – and this part of the act has had an influence on the present practice of West Germany, too.

In the *Austrian* township act a break-through in modernization was brought about by Stadion's Township Act of March 17, 1849 after an interlude of neo-absolutism which was regulated by the imperial act 1862 and subsequently by a series of crown-land laws on the townships. Accordingly, the local governments' property was regulated on several levels, being supplemented by orders concerning Bezirk, Kreis and the property of the crown-land.

The principal fund was taken into account separately. Under a different approach within the *property* of the community the less mobilizable *goods* were distinguished from the assets which formed the basis of free management, in the case of the cities (Vienna, Prague, Trieste) property was made more flexible by the trans-

ference of the right of alienating assets of smaller value to the organs operatively administering the town, beyond this only resolutions of great consequences required the approval of the government agencies and the emperor. The exercising of the right of disposal was conditional upon *qualified majority*, at the same time the resolution had to be submitted to the provincial legislature with the suspension of enforcement, if one-third of those present protested against it.

In conclusion, it must be stressed that the liberal concept of self-government contained one *elementary mistake*: namely, according to the concept of 1862 the property of the community was to be the the main source of the operation of the local government. In practice, however, this concept was negated definitely. The political-institutional crisis of the Austrian townships was intensified by a financial one which was further aggravated mainly in the villages because the communal property formerly owned by the peasant landowners, the woods, meadows, pastures of the community were becoming private property to a greater and greater extent, and this further weakened the autonomy which was not strong any way.

Regulation of the communal property of the local government in Hungarian legal history

At the turn of the 18th and 19th centuries, in the last decades of the feudal era, the corporate property of the local government was developed to a greater extent in the free royal boroughs than in the counties in Hungary. At the same time the issue of the property of the township was closely interrelated with the common usufruct of the socage peasants, on the other hand, it was greatly under the influence of the landlord. The (patented) market-towns (*oppidums*) with a higher level of autonomy had greater freedom to manage their property.

In the free royal boroughs rather *archaic* conditions could be found:

- The management of the free royal boroughs was kept within narrow bounds, under *meticulous governmental patronage*;
- The oligarchy leading the town often *monopolized* the use of the town property, the enjoyment of its benefits;
- The urban citizens played a special role in „mobilizing” the property of the town; often there were *disputes* about the use of the town property and *trespassing* on publicly owned land was not infrequent;
- Characteristically, the feudal limits *impeded* the acquisition of property by the towns beyond their boundaries. Nevertheless, the property of the town was tangible reality for everyone and in the final account the real property acquired *before 1848* formed the basis of the subsequent flourishing of the town.

In the reform period (1825–1848) the reform of the towns was not successful. The stormy revolutionary events of the spring of 1848 were followed by months of military operations. For this very reason, after the laying down of the foundations of the civilian state and law, there was no time left to elaborately regulate the local governments and their properties.

In the Bach-regime (1849–1859) there were other unsuccessful attempts to directly introduce the Austrian township laws. The decree of August 18, 1851, regulated the communal property of the towns, unfortunately, the precision of the regulation of (property) management was obliterated by its bureaucratic rigidity and repressive care.

The issues related to the restored Hungarian local governments' property were settled in accordance with the earlier practice.

Detailed rules were contained by Act 18/1871, the general provisions of which ensured the right of disposal for the communities over their own property (Article 22). The resolution of the body of representatives required the assent of the county concerning:

Article 26 b) alienation or acquisition of the community's property, concluding contract of lease beyond the term of 6 years,

e) the building of significant public utilities works,

f) the maintenance, reconstruction or demolishing of historical buildings or ancient monuments

The town was allowed to lodge an appeal with the minister of the interior against these county resolutions. In connection with questions of property management private persons also had the right to appeal with the county authorities, and then with the minister of the interior. With great probability taking account of the German model the act also introduced the institution of the initial fund which was not to be impaired under the law (Article 103).

In exceptional cases the body of representatives may decide on its alienation, substantial transformation or division only in the case of the general majority of all the members voting by names at the general assembly the date of which is to be determined and pronounced by decree with at least 30 days' interposition with the observance of the orders of Article 26.

Act 42/1870 recognizes resolutions which require higher approval. The general assembly has taken a decision, while the resolution is drafted in the county by the standing committee and in the county boroughs by the councils (with the participation of the mayor and other committees). The uniformized regulation of the county boroughs and the counties, however, often turned out to be imperfect, particularly in issues related to property.

Because of its central functions, the capital, Budapest, formed as a result of Act 36/1872 was regulated as a special municipality. Its proprietary rights corresponded to the regulation of the other municipalities, but:

– Only its resolutions directed at alienating and acquiring property with a value over Ft 25,000 called for approval (Article 4 b);

– Such resolutions could be taken in the case of qualified majority (the presence of one-fourth of the municipal committee and a two-thirds majority of those present (Article 26) at a general assembly which had been pronounced 8 days before, within 8 days after the pronouncement it was possible to appeal against them with the minister of the interior with delaying force (Article 100);

– In matters affecting the property of the town it was possible to lodge an appeal against the decisions of the magistrate with the general assembly, and then with the minister of the interior (Artical 81);

– The internal division of the capital is indicated by the regulation which prescribes for the district magistrates (as well as later does Act 33/1888 for the district committees) to protect the communal property of the district.

The divided legal regulation of the towns soon raised a number of legal-technical issues. In order to resolve them, Act 35/1875 extended certain provisions of the township act to the county boroughs, too. This divided regulation, that is the regulation of the county boroughs together with the counties and small towns having magistrates (and being subordinated to the counties) continued to exist within the framework of the township act.

In the legal regulation of the local governments' property the prescriptions of the statutes (enactments of the local governments) also played a role.

In connection with holding property and its related management the *organizational bye-laws* determined the tasks and duties of the general assembly, the special (economic, financial, building) committees and the responsibilities of the mayor, the officials and experts. It was required of these bodies to protect the property, to prevent wilful damaging, encroachment and impairing, and the best possible utilization of the sources of income was ordered.

The functioning of the apparatus formed to administer the assets of the town was regulated by extensive local legislation in Budapest, above all. These organizational-technical solutions were up-to-date, mature and remarkable rules even by today's standards.

It was the reform of 1886 in the first place which brought about the development of law in formal-technical respect. Within its framework precise formulations can be found and the changes of legislation having taken place in the meantime were also worked out in details. At the same time the possibility of the county to interfere with the (property-related) matters of the townships increased in principle, „whenever the interests of public administration or public security necessitate it”. Against the impairment of the initial fund of the township in addition to the formerly entitled persons (besides the ones within the bounds of the township) the persons „who possessed property within the township or its outskirts” were granted right of appeal as well. Consequently, the large estate, which was enabled to enforce its rights on the county level obtained new possibilities on the level of the community and could impair the autonomy of the townships. On the other hand, the county had possibilities to intervene in the interest of the township, to protect the property of the community even against the will of the local leaders (Article 115).

In comparison with the past, Act 21 of 1886 resulted in some *differentiation* between the regional (county) municipalities and the county boroughs.

Act 58/1912 was in harmony with the reform efforts of the towns and promised to have a progressive impact: on the one hand, significant central funds were put at

the disposal of the towns, on the other hand, the right to hold property was adjusted to the interests of the business turnover.

In Article 10 the voting taking place on a qualified majority basis (due to the 1886 regulation) was transformed to the majority vote of those present by names. According to the preamble minimum 2–3 months or even a whole year could pass until the resolution came into effect „...albeit for the towns it is a matter of life or death to complete the exchange of the communal and private property of the towns and townships *with business expeditiousness still suitable for making the best of the current favourable tendencies* in the exchange of the communal and private property of the town.” It was also made possible that subsequently higher assent was required in the case of resolutions related to the holding, conveying, transforming, dividing or exchanging of property or rights only over 50,000 crowns by the municipal boroughs and over 10,000 crowns by the towns with magistrates.

The acceleration of the Hungarian urbanization processes, however, came to a halt with World War I.

By the thirties of the 20th century Budapest had already outgrown the legal framework of 1872, which became the most obvious in administration. Act 18/1930 brought about the long-awaited novel:

– The right of disposing related to the property of the capital up to the limit of 50,000 pengős was relegated to the authority of the recently set up municipal council, beyond this it got under the authority of the general assembly, as a result of which the flexibility of property management was enhanced, at the same time the mayor was entitled to acquire property at auctions with subsequent approval;

– The plants of the capital had not been regulated in 1872, now this question was statutorily settled in detail. In addition to the institutions, public institutions and public utilities the plants were also regulated now *with the following definition of plants*: „... plants include shops, enterprises and premises of the capital having been set up either for the purpose of complying exclusively with its own or also with other consumers' needs, or possibly with a future perspective in mind” (Article 87.1). Management was organized to run them (Article 89).

In the case of the plants operated in the form of commercial corporations, the considerations of the public law had to be taken into account in addition to those of business, from time to time, however, they *seem to have overshadowed the business considerations to some extent*. As opposed to the German regulation, where greater freedom of intervention by the supervisory authority was rendered possible in the case of the possession of 75% of the controlling stock, in the Hungarian capital it was already possible at the level 51%.

In 1934 the so-called „Second Novel on the Capital” Act 12 abolished the municipal council, relegating the exercising of the right of disposal related to property to the scope of authority of the mayor up to the limit of 100,000 pengős. The reorganization of the plants also took place.

With regard to the property of the modern Hungarian local governments a historical survey enables us to arrive at significant conclusions concerning the period embracing more than seven decades:

– The public corporate character of the local governments lent a public character to their property, too. The political mechanism of the state which assisted, or actually impeded the unfolding of local community life, also had an influence on the property of the counties, cities and townships. By means of the supervision of the ministries it also affected the county boroughs. The same phenomenon can be observed on the regional level, when the local government of higher level (the county) in the hands of certain interest groups was in control of the key moments of changes in the assets (property) of the local governments of lower level. The regulation of the proprietary rights was also influenced by the fact that in Hungary there did not exist an independent uniform law with regard to the towns. Thus, the regulation of the proprietary rights of the county boroughs was inevitably compelled to adopt the relating orders of the township act;

– The markedly separate fields of the local governments' property were the purpose-related *initial fund* of public use with negotiability rendered difficult, the „management type” share of the property which could be used with greater freedom and at last, the property of the plants which can be regarded as *property in the form of working capital* having appeared in accordance with the industrialization and urbanization development which was significant in Budapest, in particular;

– The distinction above, however, does not conceal the fact that from the variants of property only the first and the second one will appear in the (non-urban) local governments of *lower level* (with a low number of inhabitants) at the elementary level, while all the variants will be present in the *more developed local governments*;

– The functioning of the local governments also had elements providing safeguards, the harmonic exercising of the right of supervision could ensure protection for the interests of the state and the local governments of higher level and with the institutionalization of appeal it was also possible to protect and assert the particular interests as well;

– We think that the in management activity of the 2 + 3 property variant it is very important to compare and reconcile the (dynamic) interests of trade and business turnover with those of public law (legal safeguarding);

– Local legislation has always played a role in property management;

– Finally, we can say that in the international comparison the Hungarian law on self-government belonged to the German–Austrian type with special peculiarities referring back to the Hungarian public law and this also had an impact on the regulation of the local governments' property. Some lagging behind could be observed, which was increasingly reduced by the Hungarian local governments before the catastrophe of 1945.

Property of the local governments as shown by figures

It is inevitable to provide some figures to illustrate our legal argumentation and show the most important points of the local governments' property.

Real property has always played an important role in the property of the local governments. In 1908 0.94% of the real property was owned by townships (villages) in Baranya county as compared to the whole administrative territory of the (rural) townships. In Tolna this value was 1.43%, in Somogy 0.24%. Within the entire administrative territory the property of villages was 7.76% in the rich Bács-Bodrog county. In the smaller towns (subordinated to the counties) historic past had a determining effect. Kőszeg was a rich ancient town owning 57.4% of its administrative territory, while in Szekszárd, which obtained the rank of town only a few years ago, the proportion of its own property was merely 3.2%. From among the larger towns of municipal rank Sopron and Debrecen stood pre-eminent with their own shares of landed property – with 77.3% and 50% of all the territory of the town, respectively.

The estates of the towns could be quite large. At the beginning of the 20th century the pastures of Debrecen were as large as 45,792 cadastral acres (1 cadastral acre = 1.42 English acres), Kassa had 30,184 cadastral acres of wooded land, while the arable land of Kecskemét amounted to 19,965 cadastral acres. The number of buildings owned by the towns was also significant. In 1900 Pécs had 171, Szeged 468, Debrecen 633, Budapest 874 buildings of their own, while the number of buildings in the smaller towns subordinated to the counties was modest, thus Kaposvár owned 52, Veszprém 27, Szekszárd 20 buildings.

In the case of the public utilities companies Budapest had a significant advantage. This is reflected by the numbers: in Budapest the number of employees in these companies was 25,443, while in all the municipal boroughs it was 2,720, in the smaller towns which were subordinated to the counties it was 1,489, and in all the rural towns it was merely 646. The local governments owned water- gas and sewerage works, public baths, slaughter-houses, market-halls and ice factories. They also possessed mining works, saw-mills in their wooded properties, brick-yards, flour-milling works, bakeries and printing houses. Transport was provided for by electric railways or river-harbours owned by local governments. Significant revenues were raised for the towns by the inns, concert halls and the communal pawn-offices or savings-banks.

The property of the local governments was rather diverse. In the second half of the 1920's, computing with the value of pengő in those days, the property of an average Hungarian county was 1.8 million pengős, that of the smaller average towns subordinated to the counties 6.7 million and the property of the municipal boroughs was 60.4 million pengős. As opposed to this, the property of Budapest was 1.296 million pengős, while in the case of an average rural community it was merely 77.8 thousand pengős. If we investigate the local governments' property per inhabitant, taking the rural communities as a unit (1), this value will be 0.14 in the counties, 4.5 in the smaller towns subordinated to the counties, 16.3 in the municipi-

pal boroughs and 21.4 in Budapest. This is a good indicator also of the services provided for the population by the local governments.

In Hungary and all over Central Europe the revenues of the local governments' property significantly contributed to the functioning of the towns and rural communities. At the same time they were not sufficient exclusively to achieve this purpose, since according to our data from 1930 only 48% of the revenues of the municipal boroughs was derived from their property, in the smaller towns which were subordinated to the counties this number was 38% and in the rural communities only around 17%. This can be accounted for, among others, by the fact that only 60–70% of the local governments' property was income-yielding, although the non-profitable infrastructural property shares were also inevitable elements in the lives of the local governments. The financing of the local governments increasingly had to be built on rates levied by the local governments and the subsidies granted by the central budget.

On the basis of our investigation of legal history we can conclude that although the local governments' property is inevitable and necessary, it is not a sufficient financial-material condition for the functioning of the local governments.

In the structuring of the local governments of today's modern Hungarian constitutional state, in determining their property, we must take into account the historical experience and evidence of legislation and governmental work by all means.

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RURAL AND URBAN FORMS OF PRIVATE ENTERPRISES IN HUNGARY

JÓZSEF NEMES NAGY AND ÉVA RUTTKAY

1990 was the year of political changes in Hungary, but the events preceding and leading up to this change reach back to a very short period.

The case of the economy is completely different, as we cannot speak about a real change yet. However, the processes starting up have longer past record, because the *revival and sweep forward of private activities* has been a characteristic trend since about the early 1980s and, at the same time – in the midst of stagnant „socialist” sector – has been almost the only vehicle of economic dynamism.

In this study we examine the processes of the 1980s, primarily from regional and settlement aspect and also try to make a forecast. Our investigation is complicated by the fact that we have to deal with new economic (social) actors, and official statistical data give very little useful information about them. Our analysis is based on one of our recent studies, which is completed with the latest data (*Nemes Nagy, J. – Ruttkay, É. 1989*).

Basic characteristics and weight of private activities

As to its ownership proportion and organizational forms, the Hungarian economy is already a *multi-sectoral mixed economy*. This characteristic is expected to become even more marked; the role of private sector and that of domestic and foreign private capital will further increase.

The proportion of state and cooperative sectors is still dominant in the case of the whole economy, but the private sector is not negligible even globally, and there are some fields of activity where the private sector has a dominant role. The multi sectoral character of economy becomes even more clear if we take into consideration the extent of complementary activities and subsidiary occupations.

At present, private enterprising and the complementary activities of population are greatly *limited* and performed in *small units* with economic force. As a result, it is righteous to identify private activities with *small-scale production* and *small property*. One of the characteristic features of private enterprises is the relatively small proportion of capital expenditure and the dominance of labour expenditures. Small-scale production and several forms of private activities are closely related to

the state and cooperative sector. Private activities in the last four decades were surrounded with ideological-political reservations and circumstances in the regulations (unforeseeable changes in limitations and incentives). This resulted in permanent subsistencial uncertainties among the entrepreneurs, and developed short-term economic thinking and reflexes and did not promote long-term capital investments.

In spite of the increased number of independent small entrepreneurs, at present, namely in the middle of 1990, the dominant form of private activities is still work performed as *subsidiary occupations*.

During the last two decades, additional incomes originating from subsidiary occupations and complementary activities have clearly been one of the basic (obligatory and possible) factors of increasing the standard of living and consumption and, at the same time, sensible factors of social differentiation as well. However, we should not forget about the social price of extra work either: overwork and extreme burdens characteristic of wide strata of population, whose direct consequence – besides others – is the radically worsening mortality rate of active male population.

At present, more than 300 thousand people work in the private sector, either as entrepreneurs (owners) or as employees. In the beginning of 1990, this gave about 8% of active earners. About 50–75% of active earners perform complementary activities for additional income while keeping their main job. Complementary activities and secondary jobs are common among retired people as well, though decreasing due to worsening labour conditions.

Close to 20% of the national income is produced by the private sector and the complementary jobs.

The 1980s can be characterized as the period of *extending private initiatives* (Table 1).

It is a strange contradiction of the country's development, that the *maximum* proportion of people with independent living and private enterprise was also characteristic of the „socialist” period. At this time, the proportion of small-scale producers and small capitalists increased significantly: the stabile 40% proportion of the period between 1900–1941 reached 53% in 1949 among the active earners, which basically was the consequence of radical land reform. However, this high level had lasted only for a few years: nationalization and forcing back of urban small-scale industry and small trade, forced collectivization of agriculture resulted in the shriveling up of private activities. (The number of artisans was close to 400 thousand after 1945, while it decreased to one-tenth of this number by the early 1950s, and even today it is only half of the initial number.) Private initiatives were forced into complete insignificance, to the social-economic periphery with the second, complete collectivization of agriculture (between 1959–1961). At the 1960 census, 21% of active earners (mostly small-holders) belonged to the private sector, while in 1970 their proportion decreased to 4.2%.

The bottom was in the second half of the 1970s: in 1980, the weight of this stratum was only 3.3%; the proportion of those employed by the private sector in-

creased to 4.8% in 1984 and reaches 8.0% today. The bottom and the subsequent increase can be detected in their contribution to national income.

Table 1
Proportion of small-scale producers
and capitalists to active earners, %

Year	Proportion
1900	40.0
1910	39.0
1920	41.0
1930	42.0
1941	39.0
1949	53.0
1960	21.0
1870	4.1
1980	3.3
1984	4.8
1988	6.4
1990	8.0

Source: Until 1980: census, 1984: microsensus,
1988–1990: calculations for annual planning.

One more comment should be made on this career: while the decrease after the high proportion in the late 1940s was the consequence of nationalizations and collectivization, namely the *devolution of ownership*, the increase characteristic of the last few years is *not* the result of *privatization* yet, but that of the real expansion of activities embodied in new organizations. Widespread privatization is expected in the next few years, though there are a lot of uncertainties and disputed elements in its technique and financial mechanism.

Global data showing the weight of private activities hide special historical changes and big differences within the sphere (*Table 2*).

For example, the global proportion of private sector to the employed is exceeded more than two and a half times by the weight of the private sector of *construction* (15.7%) and *trade* (15.5%). The employment rate of sectors is also above the average in transport (7.7%), while it is only around 3–5% in industry, agriculture and other non-material branches.

We can get a different picture, which shows the real role of private activities much better, if we take – besides the private sector separable on the basis of ownership – into account the complementary activities of population as well.

Insignificant private sector and *household farming* present everywhere in the villages give one-third of *agricultural* gross production. Within this, the above proportion is one-fourth in plant growing and more than 40% in animal husbandry.

House construction is a characteristic field of private activities: in the second half of the 1980s, for example, private construction industry and the people themselves were the building contractors or executors of about two-thirds of the houses built. Private activities are also dominant in the field of personal and economic services; more than 70% of touristic accommodations are private.

Table 2
Proportion of private-sector employees by branches in 1989

Branch	Number of private sector employees, thousand people	Proportion of private sector to active earners, %
Industry	63.2	4.3
Construction	54.0	15.7
Agri- and sylviculture	48.3	5.4
Transport	25.0	7.7
Telecommunication	0.2	0.3
Trade	82.0	15.5
Water management	0.1	0.1
Other material activities	1.3	2.6
Material branches	273.9	7.3
Non-material branches	37.2	3.4
National economy total	311.2	6.4

Settlement and regional characteristics of private activities

In the following, we show the settlement and regional structure of the three characteristic spheres – small-scale agricultural production, small-scale industry, small trade and new joint small enterprises.

Rural private activities: small-scale agricultural production

The above, short analysis already showed that the weight of agriculture has been related closely to agricultural private farming: its extremely high proportion and then its radical decrease was almost parallel with the changes in land ownership.

At present, the *private sector* of the private sector is limited to some small percentages of land and to a small fraction of production.

One of the most heated political and social debates of these days is conducted on the reprivatization of land, on giving the land back to its pre-collectivization owners. The final result of disputes cannot be seen yet. Though it is quite sure, that the weight of private sector will increase, it is also very likely that the majority of agricultural co-operatives and state farms will also survive.

Agricultural complementary activities, namely production performed in the *household farms* of co-operative members and in the small gardens and *small farms* of industrial workers and employees have played stabilizing role on social scale since several decades in Hungary. Close to 60 per cent of households is involved in agricultural small-scale production. Every third of these households regularly produces one or more products to the *market*. Though the rest of products does not bring money into the household budget, they result in significant savings through partial *food self-supply* in the family.

Agricultural small-scale production is clearly and primarily related to the villages as all the families and households use this opportunity. In the villages, more than one-third of all the households produce for the market. The majority of urban families also have small farms, and about 20% of urban dwellers deal with small-scale production in the gardens of outskirt homes and hobby-gardens of resort areas near the cities (*Table 3*).

Table 3

*Settlement characteristics of agricultural small-scale production in the early 1980s**

Settlement type	No small-scale farming	Produces for self-supply	Produces some products for the market	Self-supplying households	Market-oriented
<i>Budapest</i>	81.9	15.5	2.6	8.2	3.2
green belt	84.9	12.5	2.6	1.7	0.8
inner city	88.9	9.1	2.0	1.2	0.6
industrial zone	80.5	17.6	1.9	2.2	0.6
outskirts	73.6	22.6	3.8	3.1	1.2
<i>Cities</i>	46.8	37.4	15.8	27.8	18.7
county seat	69.2	25.6	5.2	10.2	4.8
traditional city	53.9	38.3	7.8	5.9	2.8
new industrial town	44.8	47.3	7.9	3.5	1.4
new small town	30.2	51.2	18.6	2.5	2.1
agricultural town	28.5	45.3	26.2	5.7	5.6
<i>Villages</i>	6.0	59.2	34.7	64.0	78.1
more than 10,000 inhabitants	24.0	61.4	14.6	8.0	4.4
5,000 – 10,000 inhabitants	19.2	61.1	19.7	11.6	8.6
2,000 – 5,000 inhabitants	6.4	60.3	33.2	22.4	28.4
1,000 – 2,000 inhabitants	3.0	57.6	39.4	13.0	20.6
500 – 1,000 inhabitants	2.3	57.7	40.0	7.6	12.2
less than 500 inhabitants	1.0	42.7	56.3	1.3	4.1
Total	40.6	41.5	18.0	100.0	100.0

*Distribution of households by the type of small-scale production, %.

Source: Rétegződés, életkörülmények, életmód II. Calculated on the basis of representative survey of 1980-81.

Increasing urban concentration in small-scale industry and retail

Private small-scale industry and private trade, characteristically consisting of small units, are *evenly* distributed in the country by regions and settlements. They adjust to the distribution of consumer's market and not related characteristically to certain settlement types or regions.

Traditional forms and professions of private small-scale industry have been driven back by now, and the role of professions meeting new requirements came to the fore. The handicraft, repair, industrial small-producer and petit-bourgeois character of the sector changed and transformed into technical service character. The number of people practising small-scale industrial professions related to *rural*, agricultural activities *decreased*, and the number of those related to *urban* markets *increased*. Precision engineering and vehicle industries (repair of household equipment, car repair) became the leading branches in sted of the traditional, light-industrial professions like clothes and shoe manufacturing and repair. Among the trade groups, there was an approximately 15 year long, (between 1970 and 1985) running up in construction industry following the increased role of private homebuilding. However in the last one or two years, decrease in living standards and shock of income positions resulted in depression in these professions as well. It is also a characteristic change, that small-scale industry has become by now a *subsidiary* occupation (there are great possibilities for this since 1975). In order to illustrate this let us tell upon, that about 40% of those working in private small-scale industry had their primary/main job there, one-fourth of them were active earners in subsidiary positions, one-tenth were pensioners, and one-fifth were employees.

In the first half of the 1980s, we were the witnesses of a very special phenomenon, radical *sector-inversion*, in *personal transport and truckage*. Private cab driving is permitted since 1981. While the private sector of transport was limited to cartaging until the beginning of decade in 1987, the number of artisans operating trucks was already 18 thousand and the number of cab drivers 13 thousand. The shift in proportions is well illustrated with the fact that nowadays the number of private cab drivers is four times more than that of the state ones in the capital city. Their concentration in Budapest is also illustrated very well if we say that 70% of private cabs run in the capital city. The above change eliminated the deficiencies in the transport branch, but did not result in more moderate charges as one would have expected it from market orientation.

In internal trade, sharp size- and ownership-dualism has developed by now: bigger, better, more modern units of retail and catering trade are operated by state and cooperative enterprises, while the small units (in retail 2-3 people, in catering trade 3-7 people work in one unit) are operated privately or in contractual form.

Contractual operation seeme to be a transitional, uncertain form of „ownership”, which forces the entrepreneurs to minimize their capital investment and maximize their profit. This characteristic of contractual operation clearly shows, that real privatization cannot be substituted by this system which is embedded in the dependencies from regulations and different powers. As a result it is clear, that

stable form of domestic trade (and probably of other branches) can only be developed through privatization with the participation of domestic and foreign capital. Settlement changes, similar to private small-scale industry, can be observed in private and contractual trade as well: small settlements and the peripheries are left for *urban consumption centers* and special *resort* places with consumption peaks.

„Urban” forms of joint private enterprises

The five years between 1982 and 1986 were the period of „urban small-enterprise boom”. Since January 1, 1982 legal regulations permitted the foundation of new joint enterprises. From one moment to the other, thousands of small organisations were formed. Continued expansion seemed to be unstoppable. Until the end of 1986, close to 14 thousand economic working communities were established, the network of company economic cooperation, with some 27 thousand units, became the biggest form, and specialized groups had more than 4 thousand members. In summary, in 1986 and 87 new forms of small organizations gave primary jobs or were sources of income for 400 thousand people.

In these organizations, new forms of ownership and organization were coupled with highly diversified structure of activities and significant urban concentration.

It is a basis characteristic of small organizations, that *young, skilled urban males* are over-represented in these activities and use their labour and intellectual capital.

In the cities, new joint enterprises filled up the same gap as household farming and agricultural small-scale farming did fill up earlier in the villages. In addition to this, urban concentration was preserved, because general economic and legal conditions have changed basically by the time the spread of these small organizations, even if very slowly, could have counter-balanced sharp dualism between centers and the periphery in their distribution. Changes in labour conditions primarily endanger the peripheries (characteristically the rural industrial seats with subordinated positions). In the countryside, already main jobs are endangered en mass, and personal income tax introduced in 1988 sorted out the organizations already developed by then and was far from supporting the establishment of new ones. Legal regulations for small enterprises became stricter, the market became narrower and uncertain economic and political conditions discourage the people’s capital as well from enterprises. As a result of all these influences, the number of company economic cooperatives decreased from its peak (close to 27 thousand organizations) in 1986 down to 20 thousand by the end of 1987 and has been decreasing further since then. The number of private economic working communities was about 14 thousand in 1986 and decreased to 10 thousand and several thousands of industrial and service cooperative special groups disappeared during the last two years.

Quality between the *capital city* and the *countryside* characterizing the spatial distribution of small organizations did not change too much between 1982 and

1987: close to 50% of these organizations are located in the capital city and the agglomeration (the population of Budapest is 20% of the country's population).

The distribution of these small organizations is characterized by their marked relationship to *settlement size* and *settlement hierarchy* (this is shown by the data on private economic cooperatives in *Table 4*).

Besides the influence of settlement hierarchy, West–East regionalism is also characteristic, as there are more of these organizations in the Transdanubian region. Small organizations are completely missing in the back-warded, peripheral regions of the country, so these organizations could not create any kind of detectable dynamism in these regions. Distribution of new joint enterprises is a good indicator of *economic and social development*: the organizations are concentrated in developed regions both by settlement levels and regions, and the existence and operation is one of the important elements of *differentiation* coming to the fore in the 1980s in regional development (*Figure 1*).

Act VI of 1988 on Economic Organizations, enacted on January 1, 1989 replaced the above analyzed forms of small enterprises with the „traditional” forms of enterprises (Limited Liability Company, Company Limited by Shares), and opened the way for joint ventures operating with foreign capital. Up till now, these joint ventures have also been characterized by strong urban and Budapest concentration.

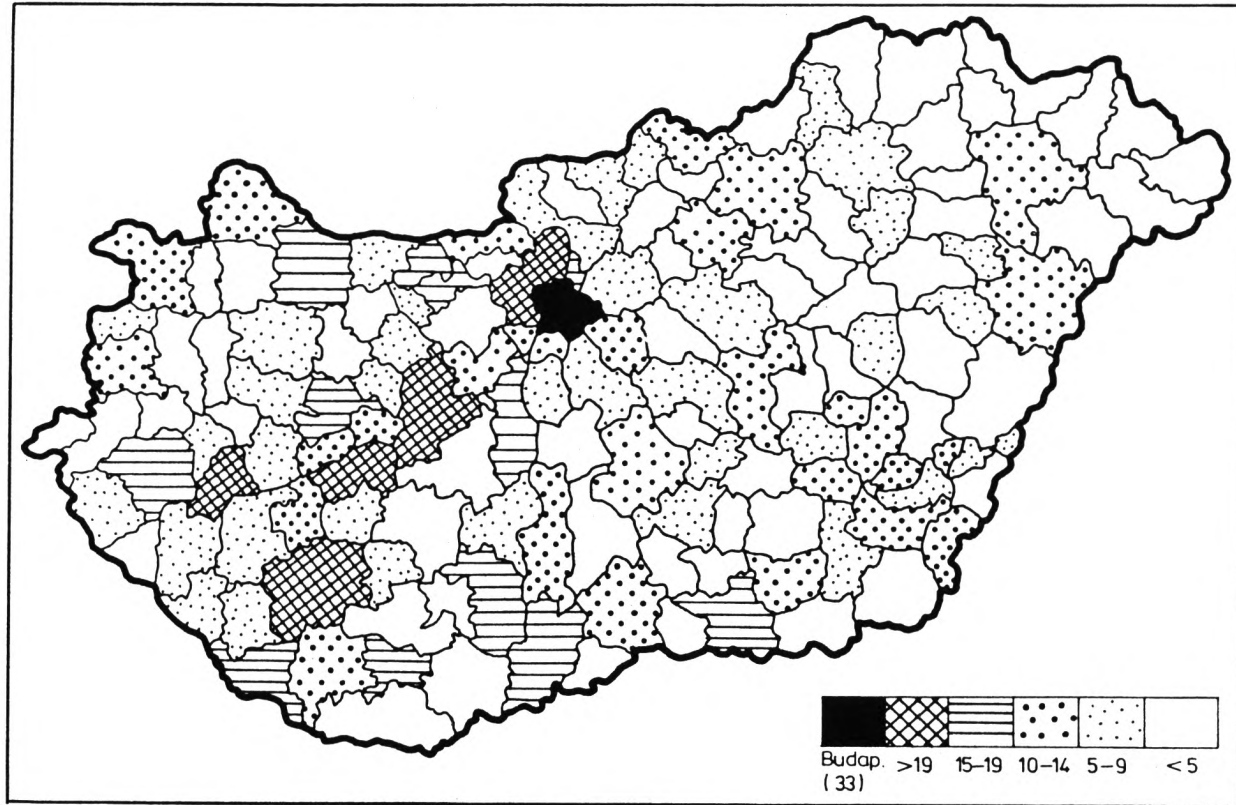
Table 4
Settlement intensity of the distribution
*of private economic working communities**

Settlement categories	Small organization/10,000 inhabitants
Budapest	33
Towns	16
county seats	19
other towns	12
Villages	5
large villages	8
other villages	4
Rural total	9
Country total	14

*Organizations established until mid 1987.

Source: Personal calculations from the data basis of the Ministry of Finance.

Figure 1
Regional distribution of private working communities, 1987



Key: 1 – Number of private working communities per 10,000 inhabitants.

Future role of private activities in different regional types

Due to the spread of urban forms of small enterprises, a significant change took place in the settlement structure of Hungarian private activities (private sector and complementary activities of the population). This sphere became „dual” as a consequence of new, diversified organizational and activity forms: the predominance of rural (agricultural) small-scale production disappeared and the urban forms strengthened.

Already the processes of the 1980s undoubtedly sign, that private initiative strengthen the segregation of society by settlements and regions and increase the difference between developed and backwarded regions. Within this, the following two dimensions cause differentiation: on the one hand, the *intellectual*, entrepreneurial, innovational potential differentiates, while on the other hand, it enlarges the differences in *infrastructural supply*. These are the two spheres, where – with the involvement of private capital and market elements – the role of the government should be increased, because otherwise, the country would be divided extremely in regional terms, in terms of towns and villages.

On the basis of the previously presented, characteristic settlement and regional linkage of private sector and complementary activities of the population, we can try to *forecast* how increased private initiatives, capital involvement and privatization will influence the different regions of the country.

In a simplified way, three types of regions are worth to mention:

- the *most developed* regions of the country,
- economically underdeveloped, peripheral zones,
- semi-peripheries, surrounding the developed regions.

According to the experience of the past decade, the first, *developed* regional type (especially the capital city and its agglomeration, the north-western part of the country, the direct surrounding of Lake Balaton) was the *spontaneous centre* of renewed private initiatives. These regions have relatively favourable social and infrastructural characteristics and are economically attractive without enterprise stimulating projects as well. State enterprises operating in this region might also be the most attractive targets for transformation. With foreign capital into companies limited by shares or joint ventures. These are the zones which are the target regions for the most prosperous touristic investments as well. In summary: as a consequence of relatively favourable terms, private initiatives are expected to grow even without special incentives.

The most *underdeveloped regions* (areas close to the border in south-western and north-eastern Hungary) – also according to the experiences of the last few years – are so very peripheric in wide social sense (infrastructurally isolated, intellectual and demographic potential damaged, natural conditions unfavourable) that, in the short run, they are *not attractive* for private capital without special preferences. If the involvement of private capital takes place, then private investments completing state investments for decreasing the above-mentioned *infrastructural* isolation and backwardness, and agricultural development projects based on extended

land privatizations seem to be necessary. In order to decrease the expected severe labour problems of these regions, private initiatives creating jobs in these two sectors, and not in „traditional” industrialization, seem to be promising.

Dynamic development performed with the initiation and special support of private capital seems to be the most likely and promising in the semi-peripheries surrounding the developed regions of the country. Vitalization of private activities originating from and related to urban centres seems to be possible in these regions. Semi-peripheries have *dual* character, have values and problems (disadvantages) alike, but seem to be turned to positive development.

Communicational, infrastructural network indispensable for market development can be developed with smaller investments, and the intellectual, innovative and cultural traditions, professional knowledge and hidden capital of these regions themselves and the neighbouring regions (cities) can also be mobilized.

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ADMINISTRATIVE REFORM OF LOCAL BUDGETS IN ESTONIA

ANDRES NUU

The administrative reform, in the course of which the predominantly centrally directed administrative system is being replaced by local self-government, has brought about the necessity to change the role of local budgets and the principles of drafting them. Up to now local budgets have been one of the guarantees for realizing the centrally planned economy, being in addition to the republican budget part of the state all-Union budget. According to the information of the Estonian Ministry of Finance, in 1989 the receipts of the local budgets amounted to 586,342 thousand roubles, or 26.9% of the state budget's receipts (the republican budget received thus 73.1%). It is necessary to mention that this sum is calculated without taking into consideration the means received from republican budget by mutual clearing of accounts. The expenditures from the local budgets, except for the means transferred to the republican budget, were 539,135 thousand roubles, which makes up 30.0% of the total expenditures of the republican budget.

The administrative units of both levels of the Estonian two-level system of self-government possess local budgets. On the primary level we may distinguish the budgets of village soviets (after carrying out the administrative reform these units will become municipalities), boroughs and towns and on the secondary level the budgets of counties (up to the year 1990 raions or districts) and republican towns (up to the 1990 the towns of republican subordination). However, to the present day almost all the receipts and expenditures of local budgets have been receipts and expenditures of the secondary level (respectively 98.6% and 99.0%). So we can say that the primary-level budgets have been of no importance in the system of budgets. They have been used mainly for financing the maintenance of local administrative apparatus. Up to now the primary-level budgets have also been part of the county and republican town budgets. Below the budgets of the primary- and secondary-level administrative units will be observed together.

The receipts of the local budgets of the towns of republican subordination (whose population accounted for 55.5% of the total population of Estonia according to the 1989 population census¹) amounted to 360,328 thousand roubles or 61.5% of the total receipts of local budgets; their expenditures were 307,901 thousand roubles or 57.1% of all expenditures. Consequently, the budgets of the raions

accounted for 38.5% of the receipts and 42.9% of the expenditures of the local budgets.

Local budgets have been used mainly for financing establishments and undertakings in the social sphere of local importance. *Table 1* gives a survey of the expenditures of local budgets in 1989. In addition, 46,014 thousand roubles were transferred to the republican budget through mutual clearing of accounts.

Thus, the main expenditures of local budgets in 1989 (and in previous years) were those on education, health care, and communal economy; together they accounted for nearly 90% of the total expenditures. About 10% of the expenditures was distributed between smaller spheres. Events and institutions of local importance were financed from local budgets. For example, among expenditures on education the financing of general education, maintenance of child care institutions and capital investments into education played key role. Educational expenditures were used to finance libraries, clubs and capital investments into culture, as well as the costs of cultural establishments and events. The money envisaged for health care was used mainly to finance hospitals and outpatient clinics of regional significance, capital investments into medicine etc. The expenditures for communal economy were used mainly for financing capital investments into housing and communal economy and the costs of the general weal of the settlements; quite a lot of money was allocated to the maintenance of dwelling houses.

Table 1
Expenditures of the local budgets in Estonia in 1989

Expenditure	Thousand roubles	Per cent of total expenditures
<i>National economy</i>	183,480	34.0
– agrarian-industrial associations	3,215	0.6
– business organizations of departments of culture	3,007	0.6
– trade	2,602	0.5
– construction and architecture	5,486	1.0
– communications	640	0.1
– everyday services	1,743	0.3
– housing and communal economy	161,016	29.9
– other expenditures	5771	1.1
<i>Social and cultural expenses</i>	331,615	61.5
– education	205,363	38.1
– science	164	0
– health care	111,165	20.6
– physical culture	4,457	0.8
– social maintenance	10,466	1.9
<i>Maintenance costs of state government and administration</i>	11,268	2.4
<i>Other expenditures</i>	12,772	2.4
Total	539,135	100.0

In the republican budget as a whole the share of the local budgets in 1989 was 60.7% in educational expenditures, 72.6% in health care, 49% in physical culture. Local budgets were of great importance in communal economy (98.5%), trade (100%), and everyday services (49.3%). Local budgets covered 45.3% of the administration expenditures.

The per capita expenditures from local budgets were the biggest in the raions situated on the islands – the Kingissepa Raion (presently the County of Saaremaa) and the Hiiumaa Raion (the County of Hiiumaa), respectively 606 and 541 roubles in 1989. The per capita expenditures were bigger than the average in towns of republican subordination. In general the expenditures varied greatly in this group: from 99 roubles per inhabitant at Sillamäe to 505 roubles at Pärnu. The smallest expenditures were made by raions that are direct hinterlands of towns of republican subordination, i.e. the raions of Harju (233 roubles per inhabitant), Kohtla-Järve (212 roubles) and Pärnu (190 roubles). The Tartu Raion that is the direct hinterland of the town of Tartu was an exception with its per capita expenditures of 391 roubles from the local budget.

The allocation of money to local budgets and their compilation have been in harmony of the needs of central government giving the centre chances of expensive reallocation of resources. This has been made possible by the practice of drawing up local budgets. Namely, first the side of expenditures of the budget is compiled and coordinated with higher authorities. Then, resources are allocated to meet the expenditures. The budget receipts consisting of the so-called fixed receipts on the one hand, and the so-called regulated receipts on the other. The fixed receipts of local budgets consist of e.g. profit tax of the enterprises and institutions of local subordination, income tax of the enterprises and organizations of consumers' cooperatives, amusement tax, real estate and land tax etc. The difference between the fixed receipts and the planned expenditures of the local budgets is covered by regulated receipts. They consist of turnover tax, income tax of collective farms, individual income tax, agricultural tax, income from forestry, tax imposed on childless adults. The Supreme Soviet of Estonia allocates a certain percentage of these taxes to local budgets every year. The rest goes to the republican budget. A characteristic feature is that the percentage of different taxes received by local budgets varies. So, in 1989 local budgets received 100% of the agricultural tax, income from forestry and tax from childless persons; at the same time they received from 10% (e.g. in Tallinn and Narva) up to 100% (in rural areas) of the individual income tax; 100% of the collective farms' income tax (except for the Pärnu Raion where its share was 50%). As to the turnover tax, the town of Sillamäe did not get any receipts from this source while other local budgets received up to 96% (Valga Raion). The budgets of raions and towns of republican subordination got 1–18% of additional receipts in accordance with their retail trade turnover.² In 1989 the regulated receipts of the local budgets allocated by the Supreme Soviet amounted to 358,623 thousand roubles or 61.2% of their total receipts.

In case the Supreme Soviet or the Government of Estonia adopt new normative acts after the budgets are approved as a result of which the expenditures of local

budgets increase or their receipts decrease, the local budgets will receive additional money from the republican budget. If the expenditures of local budgets decrease or their receipts increase, the extra money will go to the republican budget.

The composition of the receipts of local budgets compiled in the way described is shown in *Table 2*. In addition to the receipts shown in *Table 2*, the local budgets received from the republican budget 52,035 thousand roubles, and the loans amounted to 1,300 thousand roubles (Põlva Raion).

Table 2
Receipts of the local budgets in Estonia in 1989

Receipt	Thousand roubles	Per cent of the total receipts
Turnover tax	207,009	35.3
Profits tax of enterprises and business organizations	99,241	16.9
Income tax of cooperative and public organizations	53,713	9.2
Taxes from population	142,396	24.3
Incomes from forestry	5,680	1.0
Sate tax, amusement tax, local taxes	17,076	2.9
Dues and other non-tax receipts	12,991	2.2
Other receipts	13,014	2.2
Remainder of budget resources at the beginning of the year allocated for covering expenditures	35,222	6.0
Total	586,342	100.0

The above-said allows us to draw the conclusion that the receipts and expenditures of local budgets have in fact been entirely controllable by republican authorities. This system has not stimulated local governments to be economical, on the contrary, it has stimulated great expenditures so as to apply for more resources from the republican budget. The principles of compiling local budgets have left local governments few possibilities of decision-making in local affairs. Therefore, the transfer to a new economic system where local self-governments make decisions and arrange local life independently, requires also changes in the budget system.

A new budget and taxation system has been worked out to change the situation described above. According to the new law on budgets every local government shall have its own budget. This means that each local government will have a possibility to decide itself how to spend its receipts proceeding from its needs and the interests of the local population.

The composition of the receipts of local budgets will also change. According to the new law, the receipts of the local budgets shall consist of:

- 1) income from enterprises, institutions and organizations and property of local self-governments,

- 2) receipts from taxes and other incomes according to the taxation law,
- 3) receipts from taxes imposed by local authorities within the boundaries of their competence and non-tax incomes,
- 4) receipts from loan certificates issued by local government and from lotteries,
- 5) loans raised by local governments,
- 6) receipts from budgets of primary-level self-government units to cover expenditures of secondary-level self-government units,
- 7) grants from budgets of the higher level,
- 8) debts paid back and interest drawn from loans.

Local budgets receive money also from other payments and fees that are transferred to them according to law.³

An important new feature is that local self-governments have the right to impose taxes. Up to now, imposition of taxes has been solely the competence of the central government. The council of the local self-government unit shall also decide questions of making tax allowances to physical and legal persons concerning the taxes imposed by the local government.

The new law on taxation will also change the receipts from taxes. It is envisaged that the money from the following sources will go completely or partly to local budgets:

- 1) sales tax,
- 2) income tax of enterprises,
- 3) tax on capital,
- 4) tax on investments,
- 5) tax on natural resources,
- 6) individual income tax,
- 7) permit fee,
- 8) land tax,
- 9) state duty,
- 10) tax on vehicles.⁴

From the standpoint of local government the fact that a firm line has been drawn between the taxes going to the republican budget and those going to local budgets is more important than the establishment of new taxes. So, the individual income tax, permit fee, state duty, and the tax on vehicles will go completely to local budgets (the rates of taxes shall be determined by republican authorities without a fixed term). The income tax of enterprises, sales tax, tax on capital, tax on investments, tax on natural resources and land tax will go to local budgets only partly.

According to the new law on budget the expenditures shall be the following:

- 1) allocations for financing local economic, environmental, cultural, social and other projects and for the formation of trust funds,
- 2) allocations for other needs of the local economy,
- 3) allocations for financing social and cultural institutions and undertakings of local self-government units,

- 4) money for the maintenance of local self-government bodies,
- 5) allocations for forming a reserve fund,
- 6) allocations for forming special funds not envisaged in the budget of local self-government units,
- 7) loans given by local self-governments,
- 8) money for paying back the debts of local self-governments and for paying interests on debts.

It is possible to spend the resources of local budgets for other purposes envisaged by the law.

Changes in the relative importance of the local budgets of different levels in connection with the changes in the functions of local self-governments of different levels are as important as the independence of local budgets.

So, the majority of local problems should go to the competence of primary-level self-governments, the secondary-level self-government being above all an intermediate link between the primary-level self-government and republican authorities. The above-given survey of local budgets shows clearly that the present budgets of village soviets, boroughs and towns are incapable of meeting the needs of the local self-government units formed on their basis. The prevailing opinion is that both the receipts and expenditures of primary-level administrative units should be substantially increased. According to the Act on Local Self-Government the receipts of local budgets are in general cases transferred to the budget of the primary-level local self-government unit. The budgets of counties and republican towns are formed, in accordance with their functions, from taxes and receipts from primary-level local self-government budgets and the republican budget.⁵

On the other hand, a municipality is a relatively small administrative unit, and therefore it will be difficult for it to independently finance institutions which are presently used by several village soviets and financed by counties. This problem can be solved primarily by means of the cooperation of municipalities and joint financing of the respective institutions. Thus according to the comprehensive concept of economic autonomy in Estonia⁶ local self-governments may cooperate to pursue uniform economic and social policy on a bigger territory and for completely joint projects in all the fields in their competence, e.g. for building and maintenance of hospitals, outpatient clinics, health and sports facilities, homes for aged people, general and vocational schools, regional communication networks and roads.

The transfer to local self-government will expose clearly all regional differences. It will be inevitable to take measures to mitigate the negative consequences of different incomes, i.e. the state have to support at least those local self-governments whose incomes do not cover their indispensable expenditures.

Notes

¹ 1989a. üleliidulise rahvaloenduse esialgsed tulemused. ENSV Statistikakomitee teadaanne. – *Rahva Hää!*. 1989. 9. juuni.

² Eesti NSV seadus Eesti NSV 1989. aasta riigieelarve kohta. – *Eesti NSV Ülemnõukogu ja Valitsuse Teataja*. 1988. 52. Art. 741.

³ Eesti NSV eelarveseadus. – *Eesti NSV Ülemnõukogu ja Valitsuse Teataja*. 1989. 36. Art. 555.

⁴ Eesti NSV maksukorralduse seadus. – *Eesti NSV Ülemnõukogu ja Valitsuse Teataja*. 1989. 41. Art. 648.

⁵ Eesti NSV kohaliku omavalitsuse aluste seadus. – *Eesti NSV Ülemnõukogu ja Valitsuse Teataja*. 1989. 34. Art. 517.

⁶ Eesti NSV isemajandamise koondkontseptsioon. – *Rahva Hää!*. 1989. 5. aprill.

TRANSITION TO A SELF-GOVERNING SOCIETY

(MAIN FEATURES OF THE SELF-GOVERNMENT ACT)

FERENC CSEFKÓ

Introduction

Both the content and the form of the legal regulation affecting the local governments show (among others) how the *allocation of power* between the centre and the local (regional) level is realized. The equilibrium under consideration is a delicate one, since it is necessary to formulate the safeguards of state sovereignty, on the other hand, the (relative) independence, autonomy of the settlements within the state should be guaranteed.

The degree of centralization-decentralization is to be examined in this relation. At the same time we must be aware of the fact that we do not have merely political and legal questions at hand here, but economic ones of the same weight. All these together can create conditions for the functioning of the local governments representing real *local power* – in the service of the citizens living there.

The Act on Self-Governments was born (among others) with the consideration of the facts outlined above. This „delivery” was a complicated one. We might also add that one of the most complicated ones for the Parliament that was formed in April, 1990, after the first free elections. The situation became so critical during the „battle” lasting for six weeks that even the pact of the Hungarian Democratic Forum (HDF) and the Alliance of Free Democrats (AFD) was questioned with the premonitory signs of a possible government crisis.

The bill put forward by the *governing parties* contained strong *centralization efforts*, too – a relatively strong regional level and the post of the government’s employee, the „lieutenant governor”, were set up, on the other hand, numerous issues guaranteeing the functioning of the local governments were neglected, skated over or were not touched upon at all, giving ground to subsequent subjective paternalist (perhaps modern paternalist?) decisions.

The opposition (headed by AFD) refused the proposal under discussion to such an extent that it did not regard it as a basis for negotiation. Consequently, in addition to the more than hundred motions for an amendment, a counter-proposition (raising quite a number of problems) was elaborated by the biggest opposition

party. This liberal version, conceived somewhat in the spirit of natural law, is opposed to the one mentioned above.

In the end, as a result of the joint conciliary negotiations of the parliamentary parties, a version with the fundamental issues of which both the governing parties and the opposition could agree was passed by the Parliament in the manner described above.

It was not mere accident that I dealt at length with (procedural) issues that are related to our narrow topic only loosely. Namely, we have to acknowledge that the Hungarian Self-Government Act is the result of a *political compromise*, a compromise in which no one (none of the parties) could have a feeling of having been defeated. It is quite another matter to identify the winners and to say whether the *citizens* of the Hungarian Republic (those living in small settlements or large towns) *will become winners*. I reckon that only a longer period (the turn of the millennium?) will give a reply to this question.

It is also the result of the political compromise (and of the time pressure caused by the elections which aimed at realizing the change of regime) that the adopted bill has left open the regulation of quite a few issues essential from the point of view of the establishment and functioning of the local governments.

It is not settled by the law what instruments are at the disposal of the local governments enabling them „to take steps against the possibility of the *excessive centralizing ambitions* of the power”. Or else, how and through what channels the local governments (and their allies) can have a say in the matters of the central power, in the making of decisions which affect their narrower-wider region or the fate of the country in the final account.

The issue of *state-local* responsibility is still uncertain. Yet it is the alpha and the omega of the local governments' functioning, of whether the body of representatives in a given settlement can comply with their assigned or chosen duties. It should be mentioned in this respect that even today it is not clear yet whether there are (basic) services which are the legal due of all Hungarian citizens regardless of affiliations concerning race, sex, religion or settlement.

The Act deals with the local governments of the settlements, thus it does not touch upon the sectoral, professional self-government agencies and the system of relationships between the two. There is also a lack of the statutory regulation of the relationships with the state, management, social and political organs functioning *in the settlements*, not to speak of the *deconcentrated organs* which have not been dealt with at all so far.

Since the bill had to be passed now (in respect of the fundamental questions, thanks to the dogged struggle of the opposition, with a force of constitutional law), it envisages subsequent regulation (or special laws) in a number of issues, such as public finances, the state budget, or the land act which fanned the passions to a heat, and in the same manner the enforcement of laws concerning partial issues will be performed subsequently.

The Hungarian self-government act is partly a *set of guidelines*. The subsequent laws to be made later on (or rather practice) will decide, whether the local

communities recognized and protected by the Parliament will be able to exercise their rights necessary for independent and democratic self-governing, when they want give a positive form to these guidelines.

In connection with the issues outlined above I should like to stress that it is inevitable to take the necessary steps as soon as possible. Apart from this, however, the act may be suitable for enabling the local governments to replace the system of councils in the October of this year. For this, they really need protection and a „self-government-friendly” environment assisting the bodies of representatives to meet the trust and expectations of their constituents should be established .

And now let us see, what *points of reference* the guidelines ,which contain 120 paragraphs, provide for the settlements to meet these expectations.

Basic tasks and responsibilities

Regardless of the settlement size acting in local public affairs is the legal due of all local governments, in a way that their decisions may be revised only by court (the Constitutional Court) and only in the case of the infringement of the law. The *foundation of organizations, freedom of association*, organization into interest communities, the right of disposal of property and the freedom of enterprise apply to each local government.

Self-governing as the legal due of the constituents' communities is expressed by the requirements of democratic, public functioning, in the introduction of the institution of local voting and popular initiative.

Clearly, the parliament is entitled to prescribe compulsory tasks and responsibilities, but it has to ensure (an important guarantee) *the subjective conditions necessary to fulfil them*.

Although it would also have been conceivable for the parliament to make laws separately for the towns and the townships, it did not happen so because taking into account and partly acknowledging the differences between the settlements (not to speak of the enormous differences concerning equal opportunity, or the initial positions) the act provides that the counties, townships and town (the capital) may be assigned different tasks and responsibilities with the observance of legally guaranteed equality.

Local self-government of the settlement

The local self-governments of the settlements have extensive tasks in the provision of *local public services* ranging from settlement development through housing management to transportation, general and public education, culture and environmental protection, from among which some are obligatory (e.g. basic education, drinking water, or the ensuring of the rights of the national and ethnic minorities), some are optional, while others should be taken into consideration.

The representative bodies *with the status of corporation* are represented by the mayor. Their activities are assisted by committees and the office (or perhaps the local branches).

The rules of the *relegation of functions* are mostly similar to those of the councils, namely the right of making decisions in cardinal questions may not be relegated, e.g. concerning the making of decrees, the declaration of local referendum, issuance of stocks, the establishment of local associations or joining them etc.

The law allows free hand with regard to corporative functioning – prescribing the annually compulsory six meetings, the requirement of publicity and also „public hearing” once a year. On these occasions both the citizens and the locally interested organs may put forward proposals of general interest. The law also deals with the making of decrees, population forums and a lot of procedural issues – that we cannot describe in detail here for reasons of space – recording that within the framework of the act every local government is entitled to regulate all other questions in its own rules and regulations.

If the representative of the settlement (acting in this function as an official person) makes use of the legal possibility, he can become an active member of the body of representatives. It is his legal due to provide information, pass on requests, make initiatives and get access to information and – on the basis of commission – he himself may also represent the corporation. From among the settlement representatives aldermen are selected to supervise certain tasks.

The rights of preparation, control and (also in official matters) decision-making may enhance the role of the corporations functioning with the participation of experts. The members of the expert committee may be persons other than experts, too. Here we should speak about the *boards* that will possibly replace the former executive committees. The law leaves it to the body of representatives to decide whether to form narrow bodies consisting of the mayor, the chairmen of the committees and the aldermen.

It may have significance in the larger towns, above all, that – considering the internal structural units of the settlements and the interests of the population – *local governments of wards* may also be formed *as legal entities*. Beyond the responsibilities and functions determined in the rules and regulations of these corporations other functions may also be transferred to them by the decision of the body of representatives, including the transference of financial instruments as well.

The law makes mention of three officials in detail, such as the mayor, the deputy mayor and the notary. There is no doubt that the first of them has the greatest influence, so I am going to write about him in detail.

The differences between the settlements appear here, too. Namely, while in the settlements *with inhabitants over 10,000* the *mayor* is given mandate by the body of representatives (it is not necessary for the candidate to have former experience as a representative, in that case he becomes the member of the body of representatives subsequently), in the towns and townships which are smaller than this, he is elected *directly* by the inhabitants. By the way, this solution is favourable to the winning parties in the local elections in the larger settlements (which are practically the last

stage the local scenes of politicizing from the party organizational aspect in Hungary nowadays).

The mayor (who can be anyone, so the position is not dependent on qualifications) performs his public administrative tasks with the assistance of the office (for the functioning of which the notary is directly responsible). Such tasks are the determination of the office activities, the right of appointment and employee and tasks assigned to his scope of authority by provision of the law etc. The *deputy mayor* assists the work of the mayor and substitutes him – the rules of public service apply to them both.

The tasks of the notary, who should have adequate qualifications and is appointed for an undetermined period by the body of representatives, include the management of the office, the supervision of lawfulness, decisions in some public matters, the preparation of decision-making etc.

The Office of the District Notary (which is to be established in the case of settlements with inhabitants below 1,000) is an organ within the county formed with the purpose of fulfilling joint administrative tasks for the adjoining communities, on the formation of which the bodies of representatives of the concerned settlements reach an agreement. The tasks involved coincide more or less with the ones described in connection with the notary.

On the whole the general conclusion which can be drawn from all this is that the section on the local governments lays down the main rules for all the settlements, making possible at the same time the assertion of the differences, in principle it even ensures the possibilities of autonomous decision-making and also the forming of local governments in accordance with the peculiar considerations of the settlements. By means of including some new legal institutions the law significantly improves on „the germs of self-government” already present in the Council Act of 1971 taking over solutions from the regulations of the Western European bourgeois democracies as well as elements from our earlier historical traditions.

Associations

The „blessings” of the settlement developing/declining policies of the past four decades have inflicted most seriously the small settlements. The centre (Budapest) took the best part of it, then the county and the district seats, the larger and smaller towns or large townships took their shares and what was left over went to the hamlets which were trying (desperately) to make ends meet from these resources and sank into a disadvantageous situation from which they have not been able to find a way out up to now.

The administrative-organizational part of this process was the formation of the *network of joint townships*, as a result of which the system of joint councils was established by the late 70s owing to the „forced marriages”. Here the location of the seats played the same role as the different centres elsewhere. Consequently the

partner was not an equal one but rather a „subordinated village”, supposed to be only happy to get anything at all from which it was possible to scrape by.

There were also examples to the contrary, but this was the general experience in connection with most of the joint councils. Therefore it is small wonder that from the mid-80s the demand for gaining independence was on the increase, settlements which were labelled as oppositionist and recalcitrant in those days were established and they were struggling to obtain *self-determination again* in spite of all the protest and hair-splitting of the power, even if they were poor.

Therefore, the freedom of association is of great significance, in principle it cannot be excluded that 3,000 settlements may even have their own independent bodies of representatives, which indicates that they want to have no more of this „joint management” of affairs.

In addition to the *public administrative association* (the joint performing of public administrative functions) the act also allows for the establishment of *institution-directing associations*. The latter may have a special significance e.g. in education, public health service, the more rational organization of certain services etc. In both cases the decision of the bodies of representatives affected is required for their formulation, another condition being that they should reach an agreement on the questions related to their operation and maintenance.

If the local governments of the settlements should make a positive decision, they may form *joint bodies of representatives* as well, in which case (partly or wholly) they will unite their budgets, maintain a joint office and operate their institutions together. Thus from the relationship of the joint townships expressing centralization, a relationship of partners may come into being on the basis of initiatives generated from the bottom upwards.

Local referendum, the area of towns

In a separate section the Act contains provisions about the local referendum, popular initiative and the area of towns and townships. I am going to include both under this item.

The exercising of direct democracy, its integration in the decisions of the power form a rather complex, contradictory issue. At the settlement level, however, it is conceivable that the local referendum will have a much greater force, mainly where the inhabitants (or the citizens possessing real property in the resort areas) are asked about the issues they are interested in, or affected by.

The Act lists among the cases where *announcement* is *compulsory*: the fusion of townships and its abolition, the establishment of new townships and joint bodies of representatives and all other matters qualified as such by the local government. Some contingent subject matters are also mentioned by the Act which determines which matters a referendum *may not* be ordered (local taxes, budget, personal matters).

From among the procedural issues we should highlight the at least 10% limit of constituents in connection with initiative (when it is reached, the announcement of a referendum is obligatory) and that the result has a binding force for the representative bodies. In the settlements with inhabitants below 500 the referendum may be delegated to the scope of authority of the village assembly. On the basis of *popular initiative* every matter belonging to the authority of the body of representatives may be submitted to it.

Seeing the declining of the settlements (mainly that of the small ones) we can also experience *how new townships* have been born from peripheral populated areas, centres with detached farms, grounds of plants and stand-by premises, although they declared that they wanted to live together as a community.

It is fixed by the law that „if the settlement formation” is able to exercise the basic self-governing rights and responsibilities, it may be converted into a township by the *decision of the president of the republic* – with due consideration of the position taken up by the *referendum*, the village assembly or the ward. In the same place and by means of the same procedural method the law regulates the procedure related to the *abolition of the fusion of townships* as well as that of the fusion of *townships built together*, or towns and townships, and also that the bodies of representatives decide upon *transferring*, taking over or exchanging *parts of territories* (again with attention paid to the opinion of the population).

In so far as the development and regional role of a township permit, it may be *established as a town*, in which case the president of the republic makes a decision again.

Towns of county rank and the capital

A prolonged professional and political debate was going on in the period of the drafting of the bill, whether it was reasonable to give priorities to any of the settlement types from among all the others, whether it involved the danger of violating *intersettlement equality* or privileging some at the expense of others. The final result is that the act regulates separately the towns of county rank with inhabitants about 50,000 and the capital.

This issue is not restricted to the matters of given towns by far, as it has an impact upon the neighbouring settlements, the other villages, towns and mainly the county. That is, the town invested with county powers (authority of the parliament) itself performs also tasks which normally fall within the functions and responsibilities of the county. This solution, on the one hand, „weakens” the county, on the other hand, makes the other (smaller) settlements stronger on account of the fact that the settlement which is important and has weight by virtue of its functions, actual role, economic and intellectual potential is cut free from the county. Let there be no mistake about it: for the towns it entails not only rights but also responsibilities with regard to complying with the needs of their narrower-wider attraction zones.

The law determines the most important differences of organization and powers. This includes e.g. the formation of districts, the establishment of district offices and their investibility with scope of authority, and at last but not least, the fact that a *district body of representatives* functioning as a legal entity may be set up from the representatives elected there.

On account of the special role that Budapest plays in the life of the country and its peculiar situation, it required and was granted a different kind of regulation in several respects with the reservation that detailed provisions will be regulated by an act on the capital still to be made.

Each member of the district body of representatives elects one representative as a member of the *general assembly* of the capital (this being the name of the body of representatives just like in the case of the towns of county rank), while the other representatives (another 66 persons) are directly elected by the constituents of the capital.

The act precisely determines the relationship between the districts and the whole of the capital when it specifies that „the capital and the districts of the capital form a *local government at the settlement level* with tasks and functions as defined by the law. The district of the capital should perform tasks by providing basic services, while the local government of the capital performs the tasks and functions that affect the whole or a great part of the capital. A regrouping of the tasks and functions between the capital and its districts is possible – provided that the financial conditions are ensured at the same time.

The districts may organize *local governments at the level of wards*, are free to form associations with each other or other local governments situated beyond the confines of the capital, everything applies to their management that is valid in the case of the local governments of the settlements, they elect a mayor, a notary (their counterparts in Budapest are the chief burgomaster and the chief notary) and form offices.

The county

Is it necessary good or unnecessary evil? If it continues to exist, in what form, with what functions and in what kind of organization can it be integrated into the Hungarian state organization? How and where, invested with what functions should it be placed within the system of local governments based on the settlements? I am not going to enlist all the issues connected with this regional level but just point to the fact that in the past (at the end of 1989 and the beginning of 1990) nearly all the parties included in their programmes the question of the fate of the county, mostly *claiming its abolition* or calling out for the *change of its character*, if it were to exist.

The main reasons for this are, among others, the anomalies of the allocative role of the county, the role played in serving the centralization ambitions, the embodiment of the „typical” state socialist, feudal-socialist, paternalist administrative system etc. This justified criticism is not inconsistent with the fact that from the second

half of the 80s the counties started to „reformulate” themselves taking steps and managing in the interest of the settlements etc., they still bore the „stamp”.

Well now. The adopted county (as defined by law) performs tasks which the *local government of the settlement may not be obliged to perform*, providing services of regional character which embrace the county partly or wholly, or where the majority of the users live in places other than the seat of a given institution. The *local governments* – under certain conditions and when they require budgetary revenues – may take over also some of these functions, the providing of services. No doubt, *the county is also free to undertake* public tasks) beyond fulfilling the compulsory ones) „...the performing of which does not interfere with the interest of the towns and townships represented by the county...”.

The county government may also manage its own resources, may launch ventures, enter into partnership (with local governments or those of other counties) *just like* the local governments of the settlements, create decrees, prescribe referendums (although the actual tools of this are not mentioned by the law), „...it shall represent and protect the interests of the settlements of the county as well as the interests of its regions and those of the whole the country...”.

The organization of the county is formed by means of the *electoral system*. The general assembly of the county has one member per 10,000 inhabitants, but at least 50 members who may be elected by the delegates having been selected by the bodies of representatives of the local settlement governments - in proportion to the number of inhabitants.

The *general assembly* formed is a legal entity, its officials are the *chairman* and *vice-chairman* elected by the general assembly, it is entitled to set up *committees*, elect *aldermen*, form *boards*. The work of the officials is assisted by the county *office of the local government*, the direct leader of which is the chief notary appointed by the general assembly for an indeterminate period.

Thus its organization, operation and tools are similar to those of the local governments of settlements, but its powers and responsibilities are significantly different than in previous times. It is not a secondary administrative level, since the two levels are completely independent of each other, furthermore, the law even strengthened the powers of the local governments of settlements and abolished „the county powers that had lost their purpose”. Practically an *institution-maintaining regional level that had been organized to provide services* was integrated between the settlements and the centre, leaving the criteria of self-governing untouched. Practice will show what the pattern of relationships will be like, what the „protection of the settlement interests” will involve, what relationship will come into being with the deconcentrated organs, professional local government agencies etc.

Economic bases

The possibilities by means of which the local governments will be able to function (also) as *organizations* independently *managing their own resources* and providing

services are taken into account by the sections which aim at regulating the economic bases. I am going to add only a few remarks on this from a theoretical perspective.

The budgets of the local governments are to be handled as part of the state budget, nevertheless the whole regulation seems to be *market-oriented*. At the same time most of the services affecting the local governments are not sensitive to the market and may not be subject to the regularities of capital movement.

The other remark is that these provisions adopted also the experience of the bourgeois local governments, at the same time we should not forget that strong, rich and stable settlements, local societies are under discussion there. On the other hand, in Hungary there are *enormous gaps* between certain settlements (often being in tragic situation) and other „millionaire” townships, or towns with good endowments and potential advantages. It is to be feared that in reality the poor settlements will become poorer, and the rich ones even richer (in spite of the subsidies ensured by the law).

The *property* of the local governments consists of assets and rights of property value. Within the property the *initial fund* is separate: it is either *unnegotiable* (e.g. local public roads, squares, parks or anything that is declared as such by the law or the local government) or *negotiable with restriction* (public utilities, public buildings and real or movable properties as determined by the local government).

From the legal point of view the bodies of representatives have *the same rights as the owners*, with the restriction that the enterprises of the former *may not endanger* the fulfilling of compulsory duties, what is more, certain rights of disposal may be dependent upon the local referendum held upon the order of the local government. E.g. alienation, encumbrance, the investing of non-monetary assets in ventures etc.

The local government has at its disposal its own revenues, taxes allocated by the centre, revenues taken over from other managing organs, the normative subsidies of the central budget and other financial support.

From the range of *own revenues* we should highlight the local taxes, the profits, yields of business ventures and the local government's property, financial funds taken over, certain proportion of the dues and penalties, other revenues and some of the revenues deriving from the sales of the present council-owned enterprises.

Part of the personal income taxes of private persons, other *shared taxes*, *normative support*, earmarked subsidies for objectives of high priority, and backing of tasks requiring high expenditure all make it possible for the local governments to obtain resources which can ensure the costs of operation, maintenance and development. To exclude the possibility of the repeated occurrence of the practice of the previous years, the law spells out that *the amount of the state subsidies may not be reduced in the course of the year* and if the parliament assigns tasks for the local governments, it should also provide the funds for them to be able to perform. It is unfortunate that this obligation is prescribed only with regard to the new functions but not to the existing ones, since it is doubtful whether the financial tools will be enough for fulfilling them.

The law makes a promise to grant supplementary state support to „the local governments of settlements which are in a disadvantageous situation through no fault of their own”. I suppose there are quite a lot of them and they did not get into this situation through a fault of their own or deliberately.

I should like to mention just a few *economic possibilities*: the establishment of foundations, the undertaking of commitments in the public interest, raising loans, issuance of shares, making use of banking services. The local government is obliged to support its own institutions and may back the ones operated by someone else etc.

Although the local governments' property is regulated by the law in the closing provision, I find it appropriate to deal with it right here, since it may form the basis of our management of resources. From this some assets got into the possession of the local governments automatically, while others on the basis of the decision of the *property management committees*. The latter group includes the state-owned lands, forests, other real properties, waters, public utilities facilities and state-owned land on the territory of the local government. With regard to the ownership of the buildings, linear facilities and equipment of the public utilities companies complying with the needs of *several local governments* and on to that of communal enterprises and public utilities situated between settlements as well as local public roads with a route between settlements the local governments concerned may reach an agreement. If such an agreement is not reached, (on the basis of the decisions the property management committee) they may be either co-owned or get in the possession of the local county government.

The local governments are free to manage their own resources, but under the control of the *state audit office* which is also needed to prevent the loss-making operation of the local government or its becoming insolvent – the determination of which lies with the court. The interests of the population are also protected by the disposition that the restoring of solvency may not affect the public and *basic service* functions.

Finally, let me quote a rule with the character of guarantee which may be suitable for representing the economic interests of the local governments in front of the central organs: „the parliament shall make its decisions on the state budget after conciliatory talks with *the association for the protection of the common interests of the local governments, taking into consideration their opinion*”. In the formulation of the law it „shall”, which in my interpretation means that it is not possible ovoid of the association for the protection of common interests, no decision may be made against its will, that is *conciliation* is always required and this is the main point here until consensus is reached. Otherwise, the parliamentary decision is unlawful. That is quite another matter what the extent, content of „taking into consideration their opinion” implies.

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ACTIVITY

The Factory was founded in 1906. Nowadays the building, completed in 1912, is already considered an industrial monument, and began its production even in that year.

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The second stage of the factory's development began in 1965 with the production of filter cigarettes.

There was, again, significant change in the life of the plant in 1973. The production of the combined active carbonazetat filter started, which was considered a novelty at that time, and with which a new cigarette occured: Sopianae.

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*

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URBAN DEVELOPMENT AND SETTLEMENTS' INFRASTRUCTURE IN HUNGARY

GYÖRGY KÓSZEGFALVI

The structure of the settlement network

According to the status of January 1, 1989, the number of cities and townships in Hungary was 166 and 2,892, respectively. (Administrative division of Hungary see in *Figure 4* in page 109.) The majority of the population of the country live in cities.

Nearly one-fifth of the population of Hungary is concentrated in *Budapest*. During the past decades there was a moderate increase in the number of residents in Budapest: from 1981 the minimal increase in the number of the residents of Budapest practically showed stagnation. The age-structure of the population is rather unfavourable: one out of every four inhabitants reached the age-limit of retirement with the number of births indicating a decreasing tendency. The number of natural reproduction is exceeded by the number of deaths. The minimal increase of the population is due to migration from the various parts of the country and recently from abroad (Transylvania).

The capital is the largest industrial centre of the country. Approximately one-fourth of the industrial employees work in Budapest. On the basis of the endowments a great proportion of the industrial plants of the capital – mainly those in the field of machine industry, precision engineering, telecommunications and pharmaceutical industry – play a key role in the Hungarian economic structure by means of the availability of labour, rich production experience, many-sided cooperation ties, scientific research base, the closeness of the market and external economic relations etc.

These factors are particularly decisive from the aspect of the inevitable economic restructuring and the requirements of innovation-oriented production. In most districts of Budapest the conditions of the infrastructural provision of the population are backward with standards that are obsolete (this applies to both the peripheral districts and the central parts of the capital). The capital of the country plays an especially important role in the intellectual-cultural life of the country. Foreign and domestic tourism oriented towards the capital is of great significance.

The largest *agglomeration* of Hungary has formed around the capital: officially 43 settlements belong here. With the capital included, approximately 2.3–2.4 million people live here. The agglomeration process of the settlements situated in the immediate gravity zone of the capital, however, affects a significantly larger area. The agglomeration structure is determined by the route of the Danube and by the network of the most important channels of communication. Development is chiefly concentrated in the settlements lying by the main arterial roads – in the northern-southern direction. The towns situated in agglomerations (Szentendre, Dunakeszi, Budaörs, Százhalombatta, Érd) and the ones lying in the immediate agglomeration zone of the capital (such as Vác, Gödöllő, Cegléd etc.) play a relatively insignificant role in fulfilling the functions concentrated in the capital, in the regionally rational division of the functions and relieving the capital of its burden in this respect.

The determining factors of the socio-economic life of the country are the cities and towns. Among them the *cities* play a special role. Under the Hungarian conditions towns with a population over 100,000 fall under this category. Cities have a decisive impact upon the development of the system of settlements, the interurban division of labour and the urbanization process. The cities of Hungary are: Miskolc, Debrecen, Szeged, Pécs, Győr, Székesfehérvár, Nyíregyháza and Kecskemét.

Miskolc is the second largest city and industrial centre of Hungary, on the industrial structure of which the crisis of metallurgy has had an adverse effect. Debrecen has a balanced industrial base and highly developed educational-cultural-scientific institutions. Its population shows a rapid increase in number. The development of Szeged accelerated in the 1960s, the process having been determined by the extraction of crude oil and natural gas which were explored in the city confines. Szeged has a highly developed intellectual life. In the development of Pécs its cultural-scientific life and and tourism-attracting endowments play an important role. The development of Győr is determined by its transport geographical situation, its dynamically developing industrial base and commercial functions. The development of Székesfehérvár is determined by similar factors. The rapid growth of Nyíregyháza was caused by the large-scale migration of the population into the city and this process was further strengthened by its functions as a county seat. In the case of Kecskemét the development of industry, the role played in agriculture and the quickly mushrooming cultural and educational institutions are the most important factors influencing urban development.

The network of the *medium-sized towns* is made up of towns with a population from 30,000 to 100,000, their number being 33. Without the cities mentioned above, the county seats fall under this category of towns (Zalaegerszeg, Szombathely, Kaposvár, Szekszárd, Veszprém, Tatabánya, Salgótarján, Eger, Szolnok, Békéscsaba). The development in the majority of these towns has been faster during the past few years than in most of the other towns. The conditions of the supply of the population have significantly improved: namely in the field of housing and basic services as well as in the supply with public utilities.

The development of the medium towns is determined by the influence of a number of factors. Industry has a decisive impact on the development of the new

towns (Dunaújváros, Kazincbarcika, Komló) as well as in the lives of Ózd, Nagykanizsa, Vác, Orosháza and Gyöngyös. The functions related to the management and organization of industry and agriculture, the role played in trade, the functioning of the intellectual-cultural institutions are asserted, among others, in the development of Baja, Cegléd, Esztergom, Hódmezővásárhely, Jászberény, Pápa, Sopron and Szentés. The role of mass medicinal tourism is a factor of great significance – among others – mainly in the case of Gyula.

Under the Hungarian conditions the towns with a population below 30,000 can be regarded as *small towns*: their number amounting to 124. Three quarters of the Hungarian towns are small towns. Nearly half of the small towns can be found in Transdanubia. The development of the small towns abounds in contradictions. In the development of one of the groups of small towns industry, energy-production, favourable endowments arising from the transport-geographical situation, factors attracting massive tourism, cultural values play a positive role. In a great proportion of the small towns – especially in the Great Hungarian Plain – only development of a slow rate can be expected. The main reason for this is to be sought for in the lack of some of the institutions required to fulfil urban functions and also in the low standard of completing the tasks related to these urban functions. The infrastructural provision of the population is rather backward in these towns.

A smaller proportion of the population of the country live in 2,892 *rural settlements*. Over three-quarters of these settlements have a population number below 2,000. The situation of the villages is characterized by contradictory processes nowadays. The transformation and development of the rural settlements in the immediate neighbourhood of the large and medium cities, in agglomerations or zones becoming agglomerized is very rapid. In these settlements there is an increase in the population number and large-scale housing construction is going on. It is a fact of importance in this process that the majority of the people finding employment in the towns create homes for themselves in these settlements. An accelerating tendency is indicated – even if falling back behind the required extent – by the development of the most needed infrastructure and the improvement of the standard of supply. Most of the *large and medium villages* are undergoing a substantial change, too. As a result of this, the transformation of settlement structure and the restructuring of the inter-settlement relationships take place. The development of both the settlements in the suburban zones and in the large and medium villages generates the forming of new ties between the city and the village. Consequently, the functional relatedness of the settlements is extended and strengthened with interrelatedness being enhanced. In those regions of the country where the network of towns is denser and the development of the towns is above the average, there are significantly more favourable conditions for the transformation of the rural settlements and development of desirable direction and character.

The situation of the *small villages and hamlets* is the most unfavourable of all. Most of the hamlets can be found in regions where the determining factor of development is agriculture. An especially disadvantageous circumstance is that this particular group of Hungarian hamlets can be found in zones where the endowments

of the agricultural production site are very bad. In the final account, this represents a lot of problems, difficulties and tasks to cope with from the socio-political aspect, too. The backwardness and outdatedness of technical and social infrastructure severely inflict the people living here in their living and working conditions. The massive outmigration of the young and younger population from these settlements has accelerated the deterioration and erosion of the demographic relations. The formation of the settlement structure in these regions is unfavourable, causing and reinforcing the negative processes taking place.

The present condition of the system of detached farms is rather contradictory. In most of the Great Hungarian Plain the termination of the detached farms can be observed. In the regions of intensive cultivation, where the growing of vegetables and fruits is dominant, the situation of the detached farms has been stabilized as a consequence of the assertion of the economic factors – in some zones even some development can be discerned (in the zones of the cities situated in the region between the Danube and River Tisza). The number of inhabitants living on detached farms may be estimated at about 350,000 today.

Infrastructure of the towns

The infrastructural conditions of the Hungarian towns are characterized by tensions, shady sides and contradictions. In the emergence, manifestation and strengthening of the tension centres the combined impact of several factors – mutually strengthening each other – has been asserted. The consequences and drawbacks deriving from the prevailing scarcity of capital have played a decisive role in Hungary up to now. In the accumulation of the tensions which are markedly typical of the infrastructural supply conditions we can mention – among others – the practice of the past few decades in the development of settlements and infrastructure, the inconsistencies, randomness and attitudinal deficiencies and often unfounded behaviour in the development activities. The tension centres of the infrastructural provision conditions were further strengthened, sometimes even aggravated by the economic circumstances of the past decade (both in the settlements and the sectors of supply). The infrastructural development actions carried out during the past decade, especially during the past few years, did little to contribute to the essential improvement of the conditions of the provision of our towns.

In the development of our towns the „following character” of infrastructure has asserted itself both in the selective development of the settlements and their infrastructure and in the development of the sectors ensuring infrastructural supply. The latter has revealed itself most strikingly in the assertion of the settlement- infrastructural development actions which were aimed at remedying, moderating the most conspicuous, most underdeveloped tension centres and making up for the lost time. At the beginning of the 60s the large-scale building of blocks of flats gained foreground, then the development of certain sectors of the basic supplies was

pushed, the improvement of sectors of public health service was set as an objective etc. An infrastructural development policy taking into account and deliberating the whole of the settlements in a complex, comprehensive way, was hardly ever formulated and even if it was, the practice adopted in development (the conditions of enforcement) during the past few decades practically excluded the possibility of realization.

The investigation of the infrastructural provision of our towns – even if this investigation is rather limited in scope with regard to the indices – gives significant evidence of the fact that infrastructural development was subordinated to a hierarchical conception of the development of the settlement network. Naturally the pressure of the objective circumstances stimulated the infrastructural development of the regional centres which were given central priority (like the cities towns, county seats destined to fulfil the task of functioning as counter-poles of the capital); the following character of infrastructural development was most apparent in this respect. Infrastructure was unable to anticipate, forestall and promote a sound, balanced urban development policy, contribute to the formation of a proportional settlement structure and the creation, ensuring of rational conditions of functioning.

In this respect we have arrived at a dividing line. Even under the extremely unfavourable economic circumstances, when greatly heightened tensions have appeared, such behaviour should be formed and asserted in infrastructural development which might create more advantageous positions for eliminating the following character of infrastructural development, creating the essential infrastructural conditions of urban development and modernizing the conditions of supply, taking into account the interests of the whole system of settlements at the same time. Under the influence of establishing and announcing settlements as towns, a proportionately situated network of towns has been established (or at least this is what is shown by the territorial settlement network of the geographical situation of the towns), the deliberate development of which may ensure favourable circumstances for the gradual establishment of the balanced provision conditions of the population.

A peculiar fact of interest is that the specific problems of the provision of infrastructural services for our towns are obvious and easy to observe also on the basis of the grouping of towns according to order of magnitude.

The infrastructural conditions of Budapest indicate serious tensions. These tensions are characteristic of the whole capital: at the same time the thorough investigation of the figures suggests that the existence and assertion of the tension sources are revealed in a differentiated way within the capital. The districts which have been in need of renovation for decades are burdened with special problems now. Here is an example to illustrate it. In the central districts of the capital there has been hardly any development (mainly in the quantitative sense) in the field of provision with catering and commercial units as compared to the pre-war situation. At the same time the pressure on and frequentation and turnover of these units have multiplied in comparison with the pre-war times. It is worth recalling other consequences of this, too: e.g. in the difficulties of finding a parking lot in connec-

tion with the rapid increase in the number of vehicles, the difficulties of storing, removal of waste materials produced by the households, institutions and other places, the increased use of the public utilities, the deterioration of the living environment etc. A problem of different character but of similar order of magnitude is brought about by the outskirts. The consequences of their „extensive” provision conditions impose a double burden on the capital: on the one hand, from the aspect of the living conditions of the people living and working here (the lack or deficiency of the institutions providing services), on the other hand, from the aspect of the central or somewhat better supplied districts of the capital.

The index of population density in housing shows a great variety within the capital, the stock of flats is deteriorated and obsolete in a moral and physical sense, too. On account of the lack of free sites (not taking into account the financial capacity of the population now) the number of new flats per 1,000 inhabitants is very low. In respect of the investigated infrastructural sectors there are hardly any ones which have not come close to the „saturation” point or have not actually reached it. If we could carry out qualitative research as well, the picture would be even more distressing, if not tragical. At this point we should like to point to the great differences between the individual districts again, the relentless assertion of „infrastructural segregation” in the structure of the capital, in the social situation and living conditions of the inhabitants, which is easy to detect even in life style.

The large cities were the „favourite children” of settlement policy and settlement development for a long time. As outstanding points of population concentration they obtained significant positional advantages in the settlement network, in general, and within the network of towns, in particular.

The population growth forced out infrastructural development mainly in the field of large-scale housing construction, in spite of the – let us note – extremely expensive actions (completed in the best interest of the development of the large cities). On account of deficiencies existing in other sectors of the infrastructure, we can come across cases of the underutilization of endowments as well in tourism, or intellectual infrastructure, for example). One of the cities in the most unfavourable situation is Miskolc: it is not only its economic positions that have collapsed as a consequence of the crisis of the branch of metallurgy. This fact has become the greatest obstacle in the further development of the infrastructural provision of this city. The other cities are also struggling – by means of differentiated ambitions of different character – to keep up with the standard of infrastructural development (or to put it more precisely, „to survive”). The thorough investigation of the figures makes it tragically obvious that the actions taken in the interest of the housing supply of these cities and the development of other elements of the related basic services practically have exhausted all their possibilities (in the financial sense).

The strong saturation of our medium towns is shown by the figures related to infrastructural supply. In respect of infrastructure the historical towns have used up all their reserves. In the period of industrialization the recently located towns and those given high priority formerly (in the 60–70s) are struggling with a great many problems to be solved. Within this category, the towns where the settlement envi-

ronment has been greatly polluted as a result of the operation of industrial plants and energy-producing facilities are in a particularly disadvantageous situation. We should also mention the towns which are frequented centres of large-scale holiday making and tourism on account of their geographical situation, the endowments of their local and positional energy.

The small towns represent a very valuable part of the stock of Hungarian towns. In their current situation their endowments are still favourable enough (at least relatively) to enable them to become recipients of the immigrating population and provide sites for the large-scale housing construction requirements. This is shown by the per capita number of newly built flats. We should lay stress on their relatively favourable supply with district doctors, the commercial infrastructure has been established during the past decades. The provision with nurseries in these towns gives a classical illustration of the failure of earlier campaigns (when the expansion of the receiving capacity of the nurseries was urged as a task of primary importance in the field of infrastructural development, mainly in the county seats and large-scale industrial centres). This example is extremely suitable for illustrating the fact that an infrastructural development policy which is not integrated with the complex settlement development and concentrates only on certain sectors may not lead to a solution of lasting value: today – on the basis of the investigated figures – the provision with nurseries is one of the most strained conditions with regard to the small towns:

On the basis of the standards of infrastructural development and the infrastructural provision of the population the rural settlements may also be divided into three groups.

The first group includes the townships situated around large cities, medium towns, significant industrial centres. In these townships the stock of flats has significantly increased during the past two decades: housing construction is still significant, the main reason being that the great majority of the population finding employment in the cities can obtain homes in the townships of the suburban zone: mainly building their houses unaided. The organized housing construction actions of the plants and institutions have increasingly unfolded themselves. On account of the population growth the other spheres of infrastructural provision show a very unfavourable situation. Lagging behind is particularly aggravating in respect of the supply with public utilities. The majority of the Hungarian townships belong to the second group. In these villages the socialist transformation of agriculture was followed by socio-economic transformation and significant development in infrastructure (in the majority of cases **only** locally), the conditions of the infrastructural provision of the population living **here** significantly improved. The network of public utilities has been extended **and** modernized, there has been significant development **and** improvement of water supply with the help of the public utilities companies **as** well as in energy supply. In spite of this large-scale development the backwardness of the infrastructure has not been completely overcome yet. The most unfavourable situation is characteristic of the zones with small villages and hamlets, particularly in the case of the settlements situated far from towns and townships. Similarly unfavourable are the conditions of the infrastructural provision

of the – mostly aged – population living on detached farms. The situation of the supply of the population living here is characterized by troubles and serious contradictions.

Infrastructure of the great regions

The geographical, socio-economic endowments, different peculiarities of the regions of the country have a great influence on the situation, development possibilities and infrastructural supply relations of the towns lying there. This will be the topic of our analysis below.

First we are going to examine the *Transdanubian region*. With regard to the standard of regional socio-economic development and then the peculiarities of the system of settlements the spatial structure of Transdanubia can be divided into two large zones: the dividing line at Lake Balaton. The zone lying north of the lake has been one of the most dynamically developing regions of the country during the past decades. The industrial plants situated here have represented progressive production branches, their role is of vital importance both in the industrial and (the widely taken) economic structure of the country. On the basis of its landscape-natural endowments and resources it is one of the most significant agricultural regions of Hungary. The technical infrastructural network passing through this region has a determining influence both on the structural development of the country and on its ties established and maintained with the Western European countries. Examining the regional situation and structure of the intellectual potential of Hungary, we can see that the role of the northern region and towns of Transdanubia is of utmost importance also in this respect.

Taking account of the new circumstances and requirements of development we can assume that on the basis of the established structure of the economy the development of this region will be more dynamic and rapid than the national average, in the future, too. Apart from Budapest it can be expected of this region that we can probably enter into expanding cooperation with the highly developed western countries and into the European system of division of labour on a European scale. In accordance with these assumptions the existing settlement relations mean favourable conditions to this effect.

The transformation and development of the settlement system within the country is most obvious in this region. On the one hand, in the sense that a well-matched, favourably articulated system of towns of different order of magnitude, function and character has taken shape and is functioning. On the other hand, through the utilization of the natural-geographical, socio-economic endowments of the region the forming and development of new settlement structures, functional inter-settlement relatedness and agglomeration are vigorously stimulated by the peculiarities.

The marked centre of this region is Győr. The regional functions of the city were formed in the course of history; its role will be probably maintained in the future as

a consequence of its transportgeographical situation, infrastructural facilities and a number of other factors. Győr is both the recognized centre of the Northern-Transdanubian region and the determining pole of the agglomeration axis by the Danube. In Hungary after Budapest this settlement structure is the most markedly agglomerizing group of settlements offering numerous advantages and favourable endowments (in addition to disadvantages) for productive activity and infrastructural development alike. The determining role and significance of the agglomeration process is asserted by the strong interrelatedness of Győr with the settlements in its immediate neighbourhood and its structural transformation. The process of the restructuring of the settlement system can be observed also in other parts of the Northern-Transdanubian region. Such is, for example, the two-poled agglomeration between Szombathely–Kőszeg fulfilling a beneficial role in the organization of the settlements or groups of settlements which lie in the western half of the region as well as in the mediation of the division of labour and functions between the settlements. The region of the trio of towns formed in the Tatabánya–Tata–Oroszlány zone is directly linked to the agglomeration axis along the Danube. The belonging and evaluation of this region from the aspect of settlement and infrastructural development may have decisive significance concerning both the situation of the more extensive gravity zone of the capital and the development of the eastern peripheral region of Northern Transdanubia which is related to the gravity zone of the capital. South of the line of the Danube, a little bit over the northern line of Lake Balaton was formed the Mid-Transdanubian line of settlements; this group of settlements is a determining factor in the restructuring of the settlement relations on the basis of the industrial bases and mines situated here. In this chain of settlements the towns of Székesfehérvár and Veszprém play a decisive role. Particularly great is the importance and role of Székesfehérvár which is asserted from the aspect of both the settlement conditions and the infrastructure of the settlement. The deliberate, rational, purposeful administration of the settlement structures – which makes interests clash and considers them as well – makes possible not only better balanced settlement conditions but also infrastructural development based on a more rational inter-settlement division of labour and functions. From what has been said, it is clear that in the development of settlement groups it is expedient to assert a behaviour which generates and utilizes the development potentials of the centres lying outside the smaller settlement structures and may promote the development of the whole region thereby.

As opposed to the endowments of the spatial structure of the Northern-Transdanubian region which may be regarded as favourable, the Southern-Transdanubian region is in a significantly more unfavourable situation. On account of its historical endowments, apart from the industrial centres established in a few places, there has been no significant industrial process anywhere. The policy and practice of forced industrialization in the past decades – apart from a few towns – did not have a determining impact upon the settlements of the region (Pécs, Kaposvár, Nagykanizsa, Szekszárd etc.). A basically new regional and settlement developing factor of the region was the nuclear power station located in Paks. A belt of

peculiar character is the infrastructure concentrated on the southern coast of Lake Balaton, being very important for holiday making and tourism. The agricultural endowments of the region are of different character: zones with excellent endowments alternate with the ones that have unfavourable or at least less favourable endowments of habitat. The centre of the region is Pécs which is also a very important centre of intellectual infrastructure (nearly the only one).

The peculiarities of the formation and development of the spatial structure have determined the territorial location and settlement conditions of the population. The structure of settlements may be basically qualified as underdeveloped in a dual sense: firstly, the ex-centric situation of Pécs in the Southern-Transdanubian region has never ensured the utilization and assertion of the possibilities deriving from the more direct division of labour and functions with other towns (as is shown, for example, by the Northern-Transdanubian region). On the other hand, the peculiarities of the settlement structure are greatly determined by the settlement relations of the hamlets, concerning the consequences this has also contributed to the backwardness and obsolescence of infrastructural supply.

A fundamental issue is the stimulation of the development of the established network of towns towards a direction and character which may allow for creating the gravity centres of infrastructural development as well. It is a matter of regret that because of the endowments of the settlement network few possibilities present themselves for the marked strengthening and development of the division of functions between the larger towns of the region. Consequently, the strengthening and widening of cooperation between the settlements of the gravity zones formed around the smaller centres should be regarded as a task of utmost importance which determines the character and content of infrastructural development at the same time. Apart from the group of settlements agglomerating around Pécs and the settlements' chain along Lake Balaton we can come across the formation of more marked settlement structures – to only a smaller extent, assuming the development of looser inter-settlement relationships – in the immediate space around Kaposvár.

The *region of Northern Hungary* is the most problematic of all. On the basis of its natural endowments, one of the industrial centres of the country was formed here. Up to the recent past it played a determining role in the industrial structure of Hungary and in the settlement system of the region. The situation has changed by now. The industrial plants run in the region represent crisis branches, such as iron metallurgy and chemical industry. This fact influences and determines the perspectives of the economic development of the region at the very foundations. At the same time it is favourable that the majority of the mineral resources of Hungary can be found here. The revaluation of the mineral resources (of coal and lignite, above all, but also of copper ore on the long term) may generate a new impulse within the region. Agricultural production takes place under unfavourable conditions of habitat, which may be regarded as favourable only at the meeting-line of the hilly country and the Great Hungarian Plain. Some of the technical infrastructural networks of the country are located here, which has a decisive significance from the aspect of both the national connections and the international communications.

The structure of this region is characterized by a double orientation. As its part Nógrád and Heves counties are gravitated towards the capital and its agglomeration, in spite of the fact that within the region the settlements lead an isolated, internal life as a result of the natural-geographical endowments and configurations of terrain. The eastern half of the region with a larger, unbroken extension leads an independent life, having been unrighteously pushed into the background, and relying on ties with the Great Hungarian Plain. In view of its peculiar endowments – this space has a contradictory settlement structure. On the one hand, the structure of rural settlements in a backward socio-economic situation determines the settlement relations of the people living here. On the other hand, with the unfolding of capitalist industrialization and then as a result of the forced industrial development of the past few decades, it was this region where the towns and (in appearance and character) urban housing estates were formed as a consequence of the Hungarian urbanization process. We should also mention that four new towns were located in this zone during the past four decades (Kazincbarcika, Leninváros, Nagybátony, Petőfibánya). As a consequence of rapid industrial development the extremely unbalanced urbanization process created a very strained situation in infrastructural provision, mainly in the region centre Miskolc. This situation is further aggravated by the fact that the majority of the towns having been established in the wake of euphoria about the location of industrial investments are unfinished torsos, with their own settlement problems and difficulties in infrastructural provision. Miskolc is not suitable for functioning as the centre of the whole Northern Hungarian region and it can assert this gravity function only to some extent in the Heves half of the region, while in the case of the existence of suitable traffic communications its gravity influence might include the northern region of the Great Hungarian Plain as well.

The urban development having taken place as a result of rapid industrial growth accelerated the territorial concentration of the population. Owing to the possibilities determined by the natural-geographical endowments agglomeration has strengthened: in the valley of River Zagyva and along River Sajó more extendedly.

A fundamental issue is the restructuring and modernization of the settlement relations of this region and from the aspect of the infrastructural development of the settlements the deliberate forming of centres, the improvement and strengthening of adequate infrastructural provision relations for the settlements declared as towns. With regard to the zone of Nógrád it would be expedient and extremely desirable to survey its relationships with the wider gravity zone of Budapest in several aspects, making use of the advantages of the findings more consciously in the interest of the modernization of the settlement relations and the faster development of settlement infrastructure.

In the regional socio-economic development and spatial structure of the *Great Hungarian Plain* agricultural production has always had a decisive role. This role is still preserved, the region being one of the most important regions of Hungarian agricultural production. The development of industry reached the settlements of the Great Hungarian Plain in two waves. First from the second half of the last cen-

tury, in the period of capitalist industrialization which involved mainly food industry based on the preservation and processing of agricultural products. During the past decades, the second wave of industrialization reached the settlements of the Great Hungarian Plain especially in connection with the reorganization of agriculture from the sixties. This industrial development basically had the intention of providing more job opportunities for the labour force. The individual potential of some towns is of great importance from the point of view of the structure of the territorial situation of industry within the country (Szolnok, Debrecen, Nyíregyháza, Szeged, Kecskemét). The network systems of infrastructure perform determining functions towards the Soviet Union, the region of the Balkans, and through them, towards the countries of the eastern part of the world. Until recently the infrastructural facilities of the Great Hungarian Plain have had a determining role in the delivery and conveying of the energy, several raw materials and semi-finished products arriving in Hungary from the Soviet Union and the other socialist countries.

The historically evolved settlement structure of the Great Hungarian Plain has survived up to now. The transformation processes – although they created favourable, or at least more favourable conditions for the people living here – have preserved the backward, outdated character of the settlement structure of the Great Hungarian Plain.

Consequently, the conditions of the infrastructural provision of the towns, townships and villages of the Great Hungarian Plain are rather unfavourable, backward and outdated. The development actions of the past decades promoted mainly and most of all the development of the cities and county seats lying there. They contributed to remedying the accumulated tensions of infrastructural supply. The efforts to terminate the inherited backwardness of the settlements in the Great Hungarian Plain were practically unsuccessful, it was only reduced to some extent. Particularly unfavourable is the situation of the zones along the border in infrastructural provision: under the Hungarian conditions – in view the lowest level of infrastructural provision – we can come across the most backward situation in this zone.

The natural-geographical endowments of the region, its traditions, the rapidly changing conditions of economic management continue to assign a place and role to agricultural production with regard to the future. The peculiarities of the territorial situation of agricultural production, the conditions and consequences of modernized farming will exercise the greatest influence on the shaping of the spatial structure. Within reasonable time we may not have to reckon with the assertion of new factors.

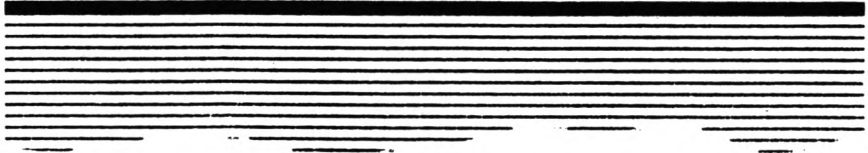
The most marked centre of the Great Hungarian Plain is Debrecen. The dynamic growth of its population, the powerful extension of its city functions, its excellent transport-geographical situation, the role that it plays in the economy and its intellectual infrastructure all ensure particular significance for Debrecen to develop. The role and significance of Kecskemét as the centre of the territory between the Danube and River Tisza are obvious. Szeged – although it has powerfully developed since the mid-60s – is practically in the background as compared to Debrecen; the fact that it is situated along the border may have contributed to this. The

one-sided urban development practice of the past decades has led to the acceleration of the county seats' development; apart from the trio of towns mentioned earlier, the towns above represent a marked framework for the network of towns in the region. At the same time, in view of provision with infrastructure, the other towns are backward. In a sense, the conditions of the towns having functioned as county seats formerly are somewhat more favourable, in the case of e.g. Gyula, Hódmezővásárhely, Csongrád. This, however, hardly improves the infrastructural backwardness of the stock of towns. The settlements of township rank, and the ones which were established and declared as towns in the past years within the framework of an action are essentially of rural character, on the elementary level of infrastructural supply.

The biggest challenge in settlement infrastructural development is the Great Hungarian Plain. It is expedient to try to achieve moderation in population growth with regard to the towns. A deliberate, selective development policy will stimulate the strengthening of the medium towns which do not perform the functions of county seats and the improvement of their infrastructural supply relations on the basis of a behaviour to be enforced on the short and long term, too.

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In September 1990 Hungarian and Estonian researchers came together to a round-table talk in Pécs, the regional centre of Southern Hungary. Economists, jurists, political scientists and geographers of the Centre for Regional Studies of the Hungarian Academy of Sciences and of the Institute of Economics of the Estonian Academy of Sciences expounded their research results and exchanged ideas on the subject of regional policy and the development and work of local self-government communities.

In both countries there have been requirements of these fundamental changes accumulated in past decades: change to a post-industrial society, structural and technological change in economy and change of social paradigm. The democratic transformation has opened merely the doors to the socio-economic modernization in both countries. The way there, however, is today for the most part unknown and there are several unknown political factors influencing the tendency of development. Regional and settlement development has come to crucial cross-roads both in Hungary and Estonia. The period of fast town-growth and settlement concentration has come to an end as well. It is the turning-point of the new settlement-forming process as well that gives ground to the beginning of a new era of regional policy. What should the regional policy of the new economic system be like, in what way should it help the restoration of Hungarian and Estonian national markets, how can it serve best the macro- and microeconomic reintegration into the growth centres of Europe, in what way should the settlement function under market terms (conditions), what should the relationship between the local authority and the central stake be like and what direction should the regional development policy take? The participants of this round-table conference tried to give answers to all these questions and the answers given to the various issues are published in this volume.